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Central Eurasia
SUPPLEMENT

FBIS-SOV-95-066-S *6 April 1995*

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*Russo-Uzbek Trade, Economic Agreement Signed

954E0779A Moscow KOMMERSANT-DAILY in Russian 21 Mar 95 p 3

[Article by K. Levin: "Bright Future of the Moscow-Tashkent Alliance"]

[FBIS Translated Text] Lately the Central Asian republics have not been spoiled with visits by highly placed figures from Moscow. The first high-level meeting this year took place last week in Tashkent (KOMMERSANT-DAILY reported it on 18 March). On 18 March the negotiations of Vice Premier Alkesey Bolshakov and Valentin Serov, head of the Russian Ministry for Cooperation, with the Uzbek leadership came to a successful conclusion, allowing Uzbek President Islam Karimov to declare: "Ties between Russia and Uzbekistan have been expanding and growing deeper recently on a mutually beneficial basis and now face some bright prospects." The parties reached agreement on a cardinal issue: in accordance with the trade and economic agreement for 1995 that was signed, Russia will receive 350,000 tonnes of cotton in exchange for oil and petroleum products.

Despite the fact that Uzbekistan has been a part of the former USSR for 70 years, which means that it has undergone a certain pro-European modernization in the area of political mentality, the Turkestan republic remains a totally Asiatic country. Therefore it is necessary to approach the declarations by Uzbek President Islam Karimov concerning the cloudless future of Russo-Uzbek relations with a certain degree of caution. In the three years since the declaration of Uzbekistan as an independent republic, Tashkent on the whole managed to ensure its independence with regard to energy requirements despite the fact that this year it will still need Russian oil along with some types of petroleum products. Uzbekistan, however, does not have any particular need for money (state credit in 1994 was never requested), since Turkish and French credit was already received a number of times with its gold holdings as security. According to EC experts, the size of the republic's gold reserves reached 900 million SDR [special drawing right] of which 400 million were deposited in West European banks. Uzbekistan's gold will apparently grow in the immediate future since the annual extraction of gold in the republic amounts to 50 tonnes and may be increased by another 10 tonnes after introduction of the Uchkuduksk Combine. As a result Uzbekistan can count on western credit in the future and on its solvency with regard to the debts owed Russia.

In essence cotton is the only economic interest the two countries have in common. Uzbekistan needs duty-free transit of cotton to Europe, while Russia needs support for its dying textile industry. Therefore a compromise was reached in Tashkent. Uzbekistan assumed the obligation to deliver 350,000 tonnes of cotton to Russia in 1995 in exchange for the supply of 750,000 tonnes of oil, aviation kerosene, and other petroleum products, lumber, and agricultural machinery. In addition, in the future Russia could consolidate its negotiating positions in light of Uzbekistan plans to export 3 billion cubic meters of natural gas to Ukraine.

The officials decided to collaborate in the production of aviation equipment as well. The agreement on principles of collaboration in the creation of financial-industrial groups was signed for the most part to activate joint production of the IL-76TD and Il-114 aircraft, and in the long term, the AN-70 as well (jointly with Ukraine). At the same time it is planned to utilize the capacities of the Tashkent Aviation Plant.

The Russian delegation in Tashkent also discussed the possibility of Uzbekistan joining the Moscow, Minsk, and Almaty customs union. A valuable gift was presented to Aleksey Bolshakov there: readiness of Tashkent to enter the triple customs union in the immediate future. In response the Russian vice premier agreed to discuss the question concerning admission into the union of the country whose economic management is being built on administrative principles and which practices rigid quota-setting for exports, including those to Russia.

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*Russian, Ukrainian, Belarusian Regional Leaders Meet

*Report on Session

954Q0169A Moscow DIPLOMATICHESKIY VESTNIK in Russian No 2, Feb 95 [Signed to press 21 Feb 95] p 63

[Report on meeting of representatives of subjects of the Russian Federation, oblasts of the Republic of Belarus and the Republic of Ukraine: "On Questions of Inter-Regional Cooperation," held in Novgorod on 13-14 January]

[FBIS Translated Text] A meeting of representatives of a number of subjects of the Russian Federation and oblasts of Belarus and Ukraine was held in Novgorod on 13-14 January. Participating in it were heads of administration of the Northwestern region of Russia and Moscow Oblast, Brest, Vitebsk, Minsk Oblasts of Belarus, and Vinnitsa, Volyn and Kiev Oblasts of Ukraine.

Minister of Foreign Affairs of Russia A. V. Kozyrev was present and spoke at the meeting, as well as representatives of the president's administration and apparatus of the Russian Federation Government, Minsotrudnichestvo [Ministry on Economic Cooperation With Governments-Members of the Commonwealth], as well as experts from the Federation Council Committee on Affairs of the CIS.

The purpose of the meeting was to discuss questions of restoring and regulating economic and cultural relations of the CIS member states on a regional level. In the course of the discussion, participants critically analyzed the current state of the economy of the corresponding republics and oblasts, and emphasized the need for development of cooperation on a bilateral and multilateral basis between the regions of Russia, Ukraine and Belarus in the sphere of industry and agriculture, ecology, science and culture.

Based on mutual interest in strengthening foreign trade relations and creating favorable conditions for development of market relations between the Russian, Ukrainian and Belarusian oblasts, the meeting participants signed a number of bilateral agreements on mutually beneficial economic cooperation, as well as a communique.

*Speech by Kozyrev

954Q0169B Moscow DIPLOMATICHESKIY VESTNIK in Russian No 2, Feb 95 [Signed to press 21 Feb 95] pp 63-64

[Speech presented by A. V. Kozyrev, Minister of Foreign Affairs of Russia, at the meeting of representatives of subjects of the Russian Federation and oblasts of the republic of Belarus and the Republic of Ukraine on questions of inter-regional cooperation, held in Novgorod on 13-14 January]

[FBIS Translated Text] I thank Mikhail Mikhaylovich Prusak for inviting me to this meeting of leaders of the oblasts of Russia, Ukraine and Belarus. The fact that we have gathered here in the first days of the New Year, on Novgorod soil, is a good sign. Since the times of Ancient Rus, Novgorod has been renowned as a center of international trade and communication.

President of the Russian Federation B. N. Yeltsin has asked that I convey his best regards to all participants in this conference, and expressed the hope that it will make a contribution to strengthening the fraternal ties of the three Slavic peoples and to unification processes in the CIS as a whole.

Making use of the fact that heads of administration of Russian oblasts are participating in today's meeting, I would also like to emphasize the importance which the Russian leadership ascribes specifically to this institution of executive power. **The heads of oblast administrations are the mainstay of the President of Russia, and they enjoy his complete trust.**

Paraphrasing the well-known saying of M. V. Lomonosov, **the wealth of Russia, as well as other countries, will grow with the wealth of the regions.**

I hope that the fascination with sovereignties is being replaced by the firm recognition of the unalternative nature of political-state unity of the Russian Federation. Unfortunately, in some places this sobering realization is achieved through bloodshed. But then, many other countries have gone through wars against separatism, including the United States of America. And we too will handle this situation, and, I might add, by ourselves. The guarantee of this is the constitution, the publicly elected president, the devotion to duty of our men in uniform and of the overwhelming majority of Russian citizens.

But unity is not a synonym for super-centralization. It is time to ensure equality of subjects of the federation in making independent decisions on the overwhelming majority of questions relating to their socio-economic development; to limit command and the tyranny of the apparatus, as well as the taxes which are stifling local goods producers and entrepreneurs. At one time, Ivan the Terrible sent about as many spears to conquer Novgorod as today there are bureaucrats of the federal organs of control and administration on the territory of the oblast—over 7,000 men. And this for a population of 752,000 people. The oblast administrative apparatus numbers 526 people. These figures make one stop and think.

State institutions and the army must be strong, yet compact and highly mobile, primarily due to their professionalism, technical equipment and social protection. Then the base of corruption, the contempt for the law and the rights of citizens, will be narrowed. Today as never before, the need for radical administrative and military reform is clearly obvious. The funds which would be freed as a result of this should be directed toward strengthening and modernizing the special services for combatting terrorism, organized crime and the drug mafia.

This is a question not only of the peace of mind of our citizens, but also of attracting investments and business activity. After all, it is no secret that many foreign partners are still afraid of doing business in the CIS, because the "Soviet military threat" has been replaced by the "threat

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of crime." Obviously, we are not speaking of building some "Berlin walls," which would place a barrier in the path of people and goods. We need not a stop gate, but a filter, which may be established only through cooperation of customs and other services of the CIS states, including also at the regional level.

I am convinced that cooperation of the border oblasts of the CIS countries and the oblasts which are closely tied to them is a huge reserve for accelerating their socio-economic development. Despite all the positive significance of the assistance which our partners from the "far abroad" are capable of giving us, we must clearly understand: **Decisive assistance we can provide only to ourselves.**

Before our very eyes, a "Europe of regions" is being formed in the European Union. I am convinced that a **"Commonwealth of regions"** of the CIS possesses no less potential. In the coming days, intergovernmental agreements on border cooperation will be signed in Omsk between 11 Russian and 9 Kazakh regions. At the same time, similar agreements will be signed in Kharkov between the border regions of Ukraine and Russia. I hope that the Caucasus regions will also join in this movement. We are currently negotiating this with the leaders of the krays, oblasts and republics of the Northern Caucasus. The development of deep-seated economic reforms, following Russia, will also create good prerequisites in Belarus and Ukraine for formulation of a truly common economic space. We have just taken a major step toward this end in Minsk, having signed an entire packet of agreements on economic cooperation of a qualitatively new type. Agreements of a similar nature will be signed also with Kazakhstan. On the agenda are major political treaties with Belarus and Ukraine, as well as visits by the President of Russia to these states. All this gives additional impetus to the development of comprehensive ties, including between the oblasts of the three republics.

The Russian oblasts represented here have already accumulated extensive experience in cooperation not only with their Ukrainian and Belarusian neighbors, but also in the Barents/Euro-Arctic region and in the Baltics. For example, Murmansk Oblast has business partners already in almost 20 states—from the USA to Cyprus. I believe the leaders of our oblasts will share their experience in this sphere. After all, we are not rivals competing for "profitable" partners in cooperation. We ourselves are partners who must together seek optimal forms of participation in international relations.

The Ministry of Foreign Affairs of Russia has accumulated extensive experience in organization and development of international regional cooperation. Here is one significant detail: Today the MFA [Ministry of Foreign Affairs] has almost 20 representations within Russia itself, and soon this number will be doubled. We have concentrated our work on assisting regions in solving strictly specific questions: Aid in establishing business relations with foreign partners, local solution of specific organizational and consular problems, expert assistance to oblast administrations on all questions of cooperation with foreign states. We have generalized our extensive experience in international relations, accumulated by all the oblasts of Russia—from Primorye to the Kola Penninsula, and we are currently preparing a packet of proposals for the Duma and the government on this basis. We will gladly share the results of our work with our colleagues from Minsk and Kiev. **I propose holding a special conference of representatives of ministries of forign affairs of our three states, for the purpose of discussing questions of developing direct relations between the oblasts.**

In conclusion, I would like to remind you: Today, by the folk calendar, it is Vasilyev's Day. "Vasiliy is coming—bringing joy." I hope that this meeting will give all the participants a charge of optimism, which will aid in the successful development of relations between the oblasts of Russia, Ukraine and Belarus.

*Text of Communique

954Q0169C Moscow DIPLOMATICHESKIY VESTNIK in Russian No 2, Feb 95 [Signed to press 21 Feb 94] pp 64-65

[Communique on results of meeting of representatives of subjects of the Russian Federation and oblasts of the Republic of Belarus and the Republic of Ukraine in the city of Novgorod on 13-14 January 1995.]

[FBIS Translated Text]

Official representatives:

From the Republic of Karelia, Vologda, Leningrad, Moscow, Murmansk, Novgorod and Pskov Oblasts, and the city of St. Petersburg (Russian Federation),

Brest, Vitebsk and Minsk Oblasts (Republic of Belarus),

Vinnitsy, Volyn and Kiev Oblasts (Republic of Ukraine),

based on mutual interest in revitalizing and developing trade-economic, scientific-technical and cultural relations,

considering the common desire to create favorable conditions for the development of market relations,

understanding the importance of expanding humanitarian contacts,

recognizing the important significance of personal contacts in regulating and developing relations between the regions of the countries of the Commonwealth of Independent States,

have agreed to the following:

1. To provide assistance in establishing direct economic relations between industrial enterprises, commercial structures, organizations and institutions of culture, science, public health, information science, tourism and sports.
2. To implement the exchange of official delegations and specialists in various sectors of economic activity and creative collectives.
3. To cooperate and provide services on commercial and marketing activity; To exchange information, and to

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ensure conditions for participation of enterprises and organizations in trade fairs and exhibits.

4. To provide mutual assistance in liquidation of consequences of natural disasters and catastrophes.
5. To take practical steps for organization of the process of concluding agreements between enterprises and organizations for mutual deliveries of products, with consideration for the economic capacities of the regions.
6. To introduce for review of the parties proposals on establishing joint enterprises and productions which would facilitate supply of the markets of the said regions with products on mutually beneficial conditions.
7. To develop a joint program for intensifying economic, scientific-technical and cultural ties, and exchange of information on problems of inter-regional cooperation.
8. To maintain the initiative of Novgorod Oblast in conducting meetings and to facilitate the expansion of the number of participants in the process of restoring inter-regional cooperation on the part of their states.
9. To create on the basis of mutual consultations a working body to coordinate the process of development of inter-regional cooperation.

Signatures of meeting participants:

For the Republic of Karelia - I. SHURUPOV
First deputy minister of economics

For Vologda Oblast - N. PODGORNOV
Head of oblast administration

For Leningrad Oblast - G. OKSYUTIK
Chairman of government of the oblast

For Moscow Oblast - A. KUZNETSOV
Chief of the Department on Questions of Nationalities and Regional Policy of the oblast administration

For Murmansk Oblast - YE. KOMAROV
Head of oblast administration

For Novgorod Oblast - M. PRUSAK
Head of oblast administration

For Pskov Oblast - YU. DEMYANENKO
Deputy head of oblast administration on social questions

For St. Petersburg - A. KUDRIN
First deputy chairman of government, chairman of the Committee on Economics and Finance

For Brest Oblast - A. VOYTESHIK
Deputy ispolkom [executive committee] chairman of the oblast Council of Deputies

For Vitebsk Oblast - V. ANDREYCHENKO
Chairman of the oblast ispolkom

For Minsk Oblast - P. PETUKH
Chairman of the oblast ispolkom

For Vinnitsy Oblast - YU. IVANOV
Deputy chairman of the oblast Council of People's Deputies

For Volyn Oblast - A. CHUMACHENKO
Deputy chairman of the oblast ispolkom

For Kiev Oblast - YU. KAPLIN
First deputy chairman of the oblast Council of People's Deputies

*CIS Agrarian Parties See Strength in Unity

*Republic Agrarian Party Leaders' Declaration

954Q0165A Moscow ZEMLYA I LYUDI in Russian No 8, 3 Mar 95 p 2

[Declaration drawn up and accepted with the participation of A.G. Dyakon, member of the Ispolkom of the Agrarian-Democratic Party of Moldova: "Declaration of the Agrarian-Democratic Party of Armenia, the Agrarian Party of Belarus, the Agrarian Party of Russia and the Peasants Party of Ukraine"]

[FBIS Translated Text] The farther time distances us from the dramatic events causing the destruction of a unified state—the Union of Soviet Socialist Republics—the more keenly the whole depth of the tragedy which befell our nation is revealed.

The break-up of the USSR, to please the ambitious strivings of higher officials, brought suffering and deprivation to the ordinary people, and led to a landslide recession in production and the destruction of the unified economic area and the financial-banking and defense systems. The scientific-technical and personnel potential are being destroyed, the people are reduced to begging and are at the edge of survival, and inter-ethnic conflicts have become the tragic fate of millions of our fellow countrymen.

In continuing the exchange of opinions begun at Gomel by delegations of the Agrarian Party of Belarus, the Agrarian Party of Russia and the Peasants Party of Ukraine, and supported by the decisions made there, on behalf of the peasantry and working people of Armenia, Belarus, Russia and Ukraine, we declare that the people, as before, live with the memory of a unified state, and common historical roots, a common fate, common traditions, spiritual closeness and indissoluble ties of kinship predominate in their consciousness. The idea of reintegration is finding more and more adherents, and there is no acceptable, healthy alternative to it.

We realize that the path to unity, on a new basis, is thorny and difficult, and that success here is possible only with the active will of the peoples and concrete steps to restore the ties lost between the work collectives, enterprises, associations and the good will of the parliaments, governments and heads of states.

Our parties welcome the agreements between Russia and the Republic of Belarus, between Russia and Kazakhstan on the customs union, on the introduction of free trade conditions without exceptions and restrictions, and on

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other measures to come closer together. The signing of the documents of the full-scale Agreement on Friendship, Good-Neighborliness and Cooperation between the Russian Federation and the Republic of Belarus was a show of good will.

On the basis of the requirements of restoring human and economic ties, we call on the parliamentarians of our states:

To create the legal conditions to carry out, on a permanent basis, a set of measures to coordinate the making of laws and put into practice the preparation and consideration of approved draft laws in the parliaments;

To put into practice the holding of interparliamentary consultations, joint meetings and exchange of visits along the line of parliamentary committees, commissions and deputy factions and groups;

To pass normative acts guaranteeing to prevent the kindling of national estrangement, interstate dissension and separatism and the artificial ousting of people, because of their ethnic characteristics, from work collectives, educational institutions, state institutions and from the territories of the countries;

To conclude bilateral and multilateral agreements, eliminating illegal displacement of citizens of the far abroad from the countries that have accepted them.

We appeal to the presidents and governments of our states to move persistently and consistently to accords and interstate agreements on accelerating integration processes and creating a unified economic area, unified defense, transport and communications structures and interstate associations in the sphere of science, culture, public health and education. To do their utmost to support and initiate any proposals and actions aimed at forming interstate financial-industrial groups and the cooperation of enterprises, associations and banks and producers and consumers of products, on the basis of free transfer of goods, services, capital and work forces.

Practical steps toward realizing the will of our peoples for unification are particularly urgent now, on the eve of the 50th Anniversary of the Great Victory over misanthropic fascism, a pledge of which is the friendship and brotherhood of peoples and cooperation and cohesion of the republics, enjoying equal rights, of a unified state—the USSR.

In giving their due to the heroism and courage of the participants in the Great Patriotic War, we call upon the governments of our states to create the conditions for the veterans of the war to celebrate the anniversary of the Victory, eliminate administrative obstacles to their free assembly and relations and to compensate the veterans for all the expenses involved in their participation in the celebration.

We demand that the presidents, parliaments and governments of our states renounce the course of "shock therapy," and carry out realistic measures aimed at overcoming inflation, stopping the slump in production and stimulating its growth, and on this basis, raising the living standard of the population, reorganizing the production structure on the basis of scientific-technical progress and the formation of interstate associations.

We appeal to the peoples of Armenia, Belarus, Russia, Ukraine and to all the peoples of the countries of the former republics of the Soviet Union to preserve the friendship of peoples, proven by many centuries of living together. The responsibility for the fate of coming generations rests on each of them.

Let us preserve the brotherhood and unity of our peoples!

The delegation of parties is committed to:

Taking the declaration adopted to the presidents, parliaments and governments of our countries;

Submitting, for the consideration of the congresses, plenums or boards of our parties, a proposal on creating an International Association of Agrarian Parties.

[Signed] T.A. Dilanyan, the Agrarian-Democratic Party of Armenia
[Signed] S.G. Sharetskiy, the Agrarian Party of Belarus
[Signed] M.I. Lapshin, the Agrarian Party of Russia
[Signed] S.V. Dovgan, the Peasants Party of Ukraine

*Agrarian Party Leaders Meet in Moscow

954Q0165B Moscow KRESTYANSKAYA ROSSIYA in Russian No 9, 6-12 Mar 95 p 2

[Article by Yuriy Dyukarev: "The Agrarians of the CIS Are Uniting"]

[FBIS Translated Text] The representatives of five related parties—the Agrarian Party of Russia, the Agrarian Party of Belarus, the Peasants Party of Ukraine, the Agrarian-Democratic Party of Armenia and the Agrarian-Democratic Party of Moldova—held a meeting in Moscow. They discussed ways of restoring the artificially torn-apart relations between the nations, and party and parliamentary problems, primarily through the prism of agrarian reforms. After that, Ivan Rybkin, speaker of the State Duma, gave a talk.

The agrarians agreed to create an International Association of Agrarian Parties with a permanent coordinating body. As observers note, this can become a powerful lever to influence the government, particularly if one considers the relative proportion of the rural politicians in the system of state organs of these countries. Ukraine, for example, has 54 deputies from the Peasants Party in the parliament. This is the second political force in the state, with which the agrarians form a bloc on all the basic questions. There is a total of 87,000 people in the Peasants Party. The detachment of agrarian-party members in Moldova is about 40,000 people. There are 56 mandates out of 104 for the agrarians in the parliament. Other parties are also very impressive.

As Semen Sharetskiy, leader of the AP of Belarus, said, the rural area is the cradle of our nation, of any people, and the state and society should have the appropriate attitude

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toward the peasantry. Semen Sharetskiy, just as the other guests, advised of the Russian president's lack of political foresight, which has an unfavorable effect on both the fate of the rural area and on the mutual cooperation of the agrarians of the fraternal countries.

The participants in the Moscow meeting accepted a declaration on interaction. It will be taken to the higher leaders of their countries.

*Russian-Latvian Agreement on Border Crossings

954Q0167A Moscow DIPLOMATICHESKIY VESTNIK in Russian No 2, Feb 95 [Signed to press 21 Feb 95] pp 30-34

[Interim agreement between the Government of the Russian Federation and the Government of the Latvian Republic: "On Simplified Procedure for Crossing the Russian-Latvian Border by Residents of Bordering Territories," signed in Moscow on 14 December 1994 by S. Zotov for the Russian Federation Government and by M. Riekstinysh for the Government of the Latvian Republic]

[FBIS Translated Text] The Government of the Russian Federation and the Government of the Latvian Republic, henceforth referred to as the Parties,

for purposes of maintaining and further developing relations which have been formulated between the residents of bordering territories of the Russian Federation and the Latvian Republic,

have agreed on the following:

Article 1

For purposes of the present Interim Agreement:

a) "bordering territories" shall mean the territories of rural administrations of the Russian Federation and the territories of volosts and cities of the Latvian Republic adjoining the line of the Russian-Latvian border (Appendix No 1);

b) "border authorities" shall mean the officials authorized by each of the Parties to resolve questions associated with maintaining the regimen of the border line;

c) "residents of bordering territories" shall mean the citizens of the Russian Federation and the citizens of the Latvian Republic, as well as the citizens of the former USSR (prior to their acquisition of citizenship) permanently residing on the bordering territories for no less than 6 months;

d) "relatives" shall mean parents, adoptive parents, stepfathers, stepmothers, children, adopted children, natural brothers and sisters, husbands, wives, grandmothers, grandfathers, great grandmothers, great grandfathers, grandchildren, great grandchildren, sons-in-law, daughters-in-law, sisters-in-law, brothers-in-law, fathers-in-law, and mothers-in-law.

Article 2

For purposes of simplified border crossing, the Parties have decided to use the border crossing stations opened for international communication, and also to open, in accordance with the Interim Agreement and the respective legislation of the Russian Federation and the Latvian Republic, simplified crossing points for residents of the bordering territories of the Russian-Latvian border line (Appendix No 2), using valid documents certifying identity and passes of established form granting the right of simplified crossing of the Russian-Latvian border (Appendix No 3). (Not published here).

Persons having valid foreign passports with visas for the country they are entering may also cross at the crossing points which have been opened for simplified border crossing.

The opening of the established crossing points shall be performed after their proper equipment and creation of necessary conditions for work of control agencies of the Parties.

Article 3

Passes for the right of simplified crossing of the Russian-Latvian border, formulated in Russian and in Latvian, are issued by the competent agencies of the Parties. Within the scope of the present Interim Agreement, such agencies are understood to be:

a) from the Russian side - administrations of the rayons of Pskov Oblast of the Russian Federation;

b) from the Latvian side - territorial agencies of the Ministry of Internal Affairs of the Latvian Republic.

If it becomes necessary to change the form of the pass, the Parties shall notify each other ahead of time, and coordinate the new sample form.

Article 4

Passes shall be issued to the residents of the bordering territories in the following cases:

a) permanent or seasonal work at enterprises, institutions, organizations or other production-economic activity, or study;

b) ownership of immovable property on the bordering territory of the adjoining state;

c) meeting with relatives and dear ones;

d) serious illness, accident or death of relative or dear ones;

e) visits to places of burial, fulfillment of religious rites, local customs and traditions;

f) implementation by local authorities of joint measures on the border line or in its direct proximity;

g) other valid reasons which determine the need for presence on the bordering territory of the adjoining state.

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Article 5

Children under 16 years of age may cross the border on the basis of a notation in the passes of their parents or accompanying adults.

Persons studying at educational institutions located on the bordering territories of adjoining states cross the border independently based on documents confirming the fact of their attendance at the appropriate educational institution, and passes. Passes are issued to students for the entire period of study. The term of validity of the passes must not exceed one school year.

Article 6

The term of validity of passes issued to residents of bordering territories is determined depending on the purposes of crossing the border, and must not exceed 90 days.

Article 7

In emergency situations (provision of urgent medical aid, natural disaster, etc.) confirmed by the official authorities of the bordering territories, the residents of bordering territories, medical personnel, rescue workers and other persons, upon coordination between the border authorities of the Parties, may cross the border at the nearest border crossing points at any time of the day or night, provided they have documents to certify their identify.

Article 8

For crossing the border in an organized manner by a group of residents of bordering territories, a pass is issued to the leader (senior member) of the group, with appendix of a list of names of the accompanying persons, who must have with them documents to confirm their identity. The list is certified by the agency issuing the pass to the leader (senior member) of the group, and the term of its validity shall not exceed 3 days. Crossing the border and movement along the territory of the adjoining state in this case is performed only within the complement of the group.

Article 9

Simplified border crossing by residents of bordering territories is performed on foot or with the use of transport means through the passage points opened for simplified border crossing, during the hours defined by agreement between the border authorities of the Parties, and through crossing points open for international communication—around the clock.

Data on the transport vehicles are indicated in the pass. Moreover, the driver of this transport vehicle must return in the same vehicle through the same crossing point through which he entered.

Article 10

Residents of bordering territories are permitted to proceed along the territory of the rural administrations of the Russian Federation and the territory of volosts and cities of the Latvian Republic indicated in the pass, and to move about within their limits.

Holders of passes return to their own country through the same crossing point through which they crossed the border.

Article 11

If, during the time that a resident of one adjoining state is present on the territory of the other adjoining state, his personal documents or pass are lost or damaged, he must immediately report this fact to the organ of internal affairs of the country in which he is located. In this case, the appropriate competent agencies issue such person written confirmation of the fact that he reported the loss or damage of his documents or pass, and the resident himself must return to his country of permanent residence as soon as possible.

Article 12

Residents of bordering territories, in crossing the line of the Russian-Latvian border, are subject to border, customs and other forms of control in accordance with the effective domestic legislation of both states.

Persons crossing the border on the basis of point "b," Article 4 of the present Interim Agreement may take instruments and mechanisms for their own personal use on the adjoining territory without payment of duty, upon obligation of their return. Also, they may transport duty-free onto the territory of the adjoining state any building materials necessary for personal use, and bring in duty-free products of agricultural activity produced by an owner of immovable property and brought back to his country of permanent residence, with confirmation of the local authorities of the area where the land plot or structure is located.

The procedure of transport, the list and quantity of the above-listed goods and other objects, are determined by the appropriate customs agencies of the Russian Federation and the Latvian Republic.

Article 13

Residents of bordering territories, in utilizing the simplified means of crossing the Russian-Latvian border and during the time of their stay on the territory of the adjoining state, must adhere to the legislation which is in effect there and respect its local traditions and customs.

Article 14

Persons who violate the statutes of the present Interim Agreement, as well as those who intentionally give their documents to another person or who use someone else's documents for crossing the Russian-Latvian border and being present on the territory of the adjoinint state, are deprived of the right of further stay on the territory of the adjoining state and are returned to the country of their permanent residence. The border authorities of the adjoining state are informed of this fact. Subsequently, such persons may be deprived of the possibility of obtaining a pass for the right of simplified crossing of the Russian-Latvian border.

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Article 15

Termination or limitation of movement through passage points for simplified crossing of the Russian-Latvian border may be implemented in case of serious deterioration of the health situation in the area of these points, or emergence of threat to public safety. The party which has the intention of terminating or limiting movement through the passage points informs the other Party of this fact no less than 10 days ahead of time.

In cases of natural disasters, industrial accidents or ecological catastrophes, the closure of the crossing points or limitation of movement through them is performed immediately, with notification of the other Party.

Article 16

The present Interim Agreement shall remain in effect until conclusion of the procedure of international formulation of the Russian-Latvian state border.

It becomes effective on the day of its signing, and may be renounced by each of the Parties by means of written notification of the other Party regarding the intent to terminate its effectiveness. Such notification will go into effect 6 months after it is sent. The Interim Agreement may be changed or amended by mutual consent of the Parties.

Executed in Moscow on 14 December 1994 in two copies, each in Russian and in Latvian, with both texts having equal force.

[Signed] FOR THE GOVERNMENT OF THE RUSSIAN FEDERATION
S. ZOTOV

FOR THE GOVERNMENT OF THE LATVIAN REPUBLIC
M. RIEKSTINYSH

Appendix 1

LIST OF BORDERING TERRITORIES LOCATED ON BOTH SIDES OF THE RUSSIAN-LATVIAN BORDER LINE

RUSSIAN FEDERATION

Territories of rural administrations of Pechorskiy Rayon:

—Lavrovskiy

Territories of rural administration of Palkinskiy Rayon:

—Kachanovskiy
—Rodovskiy

Territories of rural administrations of Pytalovskiy Rayon:

—Linovskiy
—Skordovskiy
—Nosovskiy
—Pytalovskiy
—Tulinskiy
—Gavrovskiy

Territories of rural administrations of Krasnogorodskiy Rayon:

—Pogranichnyy
—Pokrovskiy
—Krasnogorodskiy

Territories of rural administrations of Sebezhskiy Rayon:

—Dedinskiy
—Tomsinskiy

LATVIAN REPUBLIC

Volosts of Aluksnenskiy Rayuon:

—Liepna
—Pededze

Volosts of Balvskiy Rayon:

—Baltinava
—Briezutsiems
—Vetsumi
—Zhiguri
—Shkilbeny
—Medneva
—city of Vilyaka
—Susaya

Volosts of Ludzenskiy Rayon:

—Blonty
—Brigyi
—Golyshevo
—Zalesye
—Istra
—city of Karsava
—Lauderi
—Lidumnieki
—Malnava
—Migliniyeki
—Merdzene
—Mezhvidi
—Nirza
—Pasiyena
—Pushmutsova
—Salnava
—Tsibla
—city of Zilupe

Appendix 2

LIST OF PASSAGE POINTS FOR SIMPLIFIED CROSSING OF THE RUSSIAN-LATVIAN BORDER LINE

1. Passage points open for international communication:

From the Russian Federation side	From the Latvian Republic side
Skangali -	Karsava
Posin -	Zilupe
Ludonka -	Viyentuli
Ubylinka -	Grebnevo
Burachki -	Terekhovo

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Passage points for simplified border crossing:

From the Russian Federation side	From the Latvian Republic side
Manukhnovo	- Berzini
Punduri	- Punduri
Untino	- Katlishi
Purvmala -	Ventsumi
Lyamony -	Golyshevo
Mogili -	Opoli
Brunishevo -	Pededze

*Russian-Latvian Agreement on Travel by Non-Citizens

954Q0167B Moscow DIPLOMATICHESKIY VESTNIK in Russian No 2, Feb 95 [Signed to press 21 Feb 95] pp 34-35

[Interim Agreement between the Government of the Russian Federation and the Government of the Latvian Republic: "On Travel by Persons Who Are Citizens of the Former USSR, Permanently Residing in the Latvian Republic Who Do Not Hold Russian or Latvian Citizenship or Have Citizenship of a Third State, From the Latvian Republic to the Russian Federation and Return to Their Permanent Place of Residence in the Latvian Republic," signed in Moscow on 14 December 1994 by S. Zotov for the Russian Federation Government and by M. Riekstinysh for the Government of the Latvian Republic]

[FBIS Translated Text] The Government of the Russian Federation and the Government of the Latvian Republic, henceforth referred to as the Parties,

motivated by considerations of a humanitarian character,

recognizing the fact that contacts between people in the humanitarian sphere will facilitate the development of good neighborly relations between the two states,

respecting the right of every person to unhindered movement, as secured in the International Pact on Civil and Political Rights,

desiring to regulate the procedure for crossing of the Russian-Latvian border by persons who are citizens of the former USSR permanently residing in the Latvian Republic, not being Russian or Latvian citizens and not having citizenship of a third state,

have agreed on the following:

Article 1

Persons who are citizens of the former USSR permanently residing on the territory of the Latvian Republic, not holding Russian or Latvian citizenship and not having citizenship of a third state, may exit the Latvian Republic and enter the Russian Federation without visas and return to their place of permanent residence with documents certifying their identity, including with a passport of a USSR citizen, which carries a notation of their permanent residence in the Latvian Republic, guaranteeing them the right to return without visas to their place of permanent residence.

Article 2

Children of persons indicated in Article 1 of the present Interim Agreement, upon reaching the age of 16, shall be issued a domestic passport of a citizen of the USSR by the authorities of the Latvian Republic, with notation of their permanent residence in the Latvian Republic, allowing them to exit the country and return to their place of permanent residence in the Latvian Republic without a visa.

Article 3

Children of persons indicated in Article 1 of the present Interim Agreement who are under 16 years of age may enter the territory of the Russian Federation, as a rule, with their parents.

Upon travel of children of the above-indicated persons in the accompaniment of another person, it is necessary to have the following documents:

a) birth certificate of the child;

b) notarized consent (power of attorney) of the parents or other legal representatives of the child for his travel with the accompanying person;

c) photo identification of the child, confirming the fact of his permanent residence in the Latvian Republic and travel with the accompanying person, issued by the Department of Citizenship and Immigration at his place of residence, with indication of the necessary data about the child and the accompanying person.

The consent form (power of attorney) and photo identification are certified at the consular institution of the Russian Federation in the Latvian Republic.

If the person accompanying the child is a citizen of the Russian Federation who has entered the Latvian Republic and is returning to the Russian Federation, aside from the above-listed documents formulated for the child, his visa must bear the appropriate notation, made by the Department on Citizenship and Immigration.

Upon return of the child to the Latvian Republic with another accompanying person, the internal affairs organs of the Russian Federation make the appropriate notation to this effect on the above-mentioned certificate.

Article 4

Persons indicated in Article 1 of the present Interim Agreement who are staying temporarily on the territory of the Russian Federation, in case of loss of documents certifying their identity, shall return to their place of permanent residence in the Latvian Republic under certificates which are issued by the consular institutions of the

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Latvian Republic in the Russian Federation on the basis of a certificate issued by the internal affairs organs of the Russian Federation confirming the fact that they reported the loss of their document.

Article 5

The present Interim Agreement becomes effective from the day of exchange of notifications confirming the fact that each of the Parties has fulfilled the intra-state procedures necessary for its implementation, and shall remain in effect for 3 months from the day that one of the Parties gives the other Party written notification of its intent to terminate its effectiveness.

Executed in Moscow on 14 December 1994 in two copies, each in Russian and in Latvian, with both texts having equal force.

[Signed] FOR THE GOVERNMENT OF THE RUSSIAN FEDERATION
S. ZOTOV

FOR THE GOVERNMENT OF THE LATVIAN REPUBLIC
M. Riekstinysh

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Economic Issues

*Impact of New Trade Regulations Questioned

954E0764 Moscow KOMMERSANT in Russian No 9, 14 Mar 95 pp 14-16

[Article by Nikita Kirichenko, Tatyana Mukhina, and Marina Shpagina: "It Did Not Turn Out The Way They Wanted, But It Will Under the Law"]

[FBIS Translated Text] **They Had Something To Lose**

Not only associations of disabled and every possible kind of fund, but structures which would seem to be able to stand up for themselves, such as the MVD [Ministry of Internal Affairs] and the GTK [State Customs Committee], which until now had enjoyed the right to import commodities duty-free to meet their own needs, have been deprived of their privileges. Entire oblasts and republics have lost their tariff advantages. Exemptions in the payment of customs duties (both import and export) were abolished for such powers as the "Gazprom" RAO [Russian Joint-Stock Company], the "All-Russian Motor Vehicle Alliance" AO [Joint-Stock Company], and the "AvtoVAZ" AO. For example, the abolished privileges included the customs tax deferments granted to "Aviastar" and the Orsk-Khalilovo Metallurgical Combine (the former's settlement with the budget had been deferred until January 1997 and the latter's settlement had been carried over to the next century, 2001 to 2003).

The scale of what took place may be determined simply by the seven and a half page list of "deprivees" accompanying the edict. There is no single opinion about the amount they are losing; the maximum estimate, according to different sources, is $3 billion, but presidential adviser Aleksandr Livshits, referring to sources in the Duma in a KOMMERSANT interview, estimated the amount of customs payment privileges last year at 10 trillion rubles [R]. Estimates of what the 1995 budget will receive from abolishing the privileges vary even more: according to Vice Premier Anatoliy Chubays, it is R4 trillion, but according to Mikhail Zadornov, chairman of the Duma Committee on the Budget, Taxes, Banks, and Finance, it is R2 trillion. We believe such a large difference between the figures for last year and the forecasts for 1995 is linked with a different estimate of the reduction in imports and the decline in export prices if the flow of exports is increased at the cost of liberalizing export conditions.

Let us point out that this does not involve such a substantial part of the budget revenues planned—just 1.5 to 2 percent—but the repercussions of abolishing the customs payment privileges will be greater.

They Will Have Something To Lose

First of all, the very fact that this decisive action is being taken is worthy of attention. This is not the first attempt made at the highest level to remove the advantages held by influential privilege recipients. Attempts to somehow have an effect on "the nonreceipt of money for the budget because of privileges" were undertaken by the Ministry of Finance. In particular, the ministry established restrictions on the amount of customs taxes being paid by the privilege holders—a kind of quota on privileges. For example, the finance minister assigned the All-Russian Society of Deaf Persons a quota of $160 million (the quota was exhausted, and accordingly, the freight for this society stopped crossing the border). The quota for sportsmen was higher—$250 million—but at the end of the year, restrictions for them were removed because of "several unplanned measures which required additional expenditures." In particular, Russian athletes unexpectedly went to the Davis Cup finals, which no one had counted on, just as they did not count on the chess competition. So the National Sports Fund managed to exceed the limits set by the Ministry of Finance. It is possible that the authorities will conclude this matter this time; God loves a trinity.

Second, it appears that currently this involves only individual deferments in the payment of export and import duties introduced by presidential decrees. The edict, signed weeks earlier, also provides for an appropriate "clearing out" of privileges involving other taxes: excise taxes, NDS [value-added taxes], etc., and introduced not only by edicts but by government decrees. As KOMMERSANT has reported, data is currently being collected in the Control Administration of the president's administrative office on the kinds of tax payment deferments that were granted, and in two to three weeks, after the data is analyzed, the budget may be replenished by a sizable amount. We need to bear in mind that according to the Control Administration, 50 to 60 percent of the president's authorizations for allocating material resources have not been implemented because of the usual lack of funds.

Third, the motivation for the current decisive action is worthy of particular attention. What will be sown after the current stage of slash and burn agriculture? This is how presidential adviser Aleksandr Livshits responded to the question "What next?" "This involves structural policy. They have been saying that there hasn't been any, but there has; it is not very distinct and it is very impulsive." In his words, when the question of compensating one organization or territory or another for losses from the elimination of the privileges is resolved, the priorities of structural policy will be taken into account. Since KOMMERSANT's experts did not discover any clear-cut priorities in the president's message, they had to clarify this with the president's adviser. His answer: technical modernization, the national infrastructure, and the production of high-tech products. In the views of KOMMERSANT's experts, the compensations dispensed according to such a principle may include all the former privilege holders except perhaps the sportsmen and the "Afghans," and most of them may be cut off, depending on how broadly the terms above are interpreted. If they refer not to firms but to specific projects which specific firms are implementing, it will be much harder for the former privilege holders to be compensated.

But There Is No Need for Despair

A number of organizations unquestionably need state support. It may be organized in various ways: direct

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subsidies from the budget or privileges, including deferment in the payment of customs taxes. It is clear that neither alternative is ideal: the budget is chronically unfulfilled, and the needy will wait for little. The privileges are ready money, which they do not have to wait for and ask for: in the words of GTK specialists, "those receiving privileges have not stopped deliveries for a minute." Granting these privileges, however, is fraught with violations: resales, use for unassigned purposes, etc. We will not try to predict how this problem will be resolved.

For those who cannot count on direct support from the state, there is the opportunity to use other channels: privileges stipulated by the *laws* "On the NDS," "On excise taxes," "On the customs tariff," and "On foreign investments" and by intergovernmental agreements and the Customs Code. Moreover, the GTK has already sent its recommendations to the government on additions to the law "On the customs tariff" in the section dealing with extending foreign trade privileges. For example, the GTK suggests that enterprises with foreign investments be authorized to import commodities intended for their own needs and their own production duty-free (today such enterprises can import duty-free only those commodities which are an investment in the charter fund).

To all appearances, this channel will not be obstructed as a channel for receiving privileges such as deferred customs payments. The first experience in this connection is already available: the 50th Anniversary of the Victory Fund formed on 6 May 1994 has long been called a potential claimant for the privilege, and on 6 March, the day the president signed the edict abolishing foreign trade privileges, the government ordered that the fund be provided with "assistance and support" in the only possible way: the Ministry of Finance and the GTK are to "grant the fund deferred payment of the value-added tax and customs duties in acquiring and selling goods and services for up to two months." As the GTK specialists point out, it is likely that they can expect the same kind of directive on deferred payments for another two months, then another, and another when the current one expires.

It has not been ruled out that under the conditions of inadequate control, certain privilege recipients who have survived will attempt to make use of what they have for their own interests. For example, under the guise of commodities intended to cope with the aftermath of natural disasters, catastrophes, and accidents (let us point out that such preferences were stipulated by the law "On the customs tariff"), some firm, after appealing to the GTK of the Moscow government, imported six sidewalk-cleaning machines duty-free (GTK letter No. 01-40/18004 of 24 December 1993), and the Engineering Department of the Moscow government sent a letter with the same wording to import 20 "Bobcat" machines (machines for street cleaning and loading) duty-free under contract Nos. 22/93-5, 24/93-5, and 50/93-5. In addition, the Customs Committee still recalls that some commercial firm imported a large consignment of women's underwear under the guise of commodities intended to "stabilize the production activity of petroleum complex enterprises."

The same may be said of shipments under intergovernmental agreements which, as the GTK explained to KOMMERSANT, seldom contain specific legal norms for granting customs privileges, and "any contract may be conducted" under them for this reason. Thus, an intergovernmental agreement included an investment agreement between the Russian Federation and the "Mars" Concern (KOMMERSANT wrote about this in issue No. 4). Mars invests $100 million in a Russian project and receives for this a 50-percent reduction in customs duties to import its products for a period of 5 years. This kind of preference was granted to Mars by presidential edict No. 73 of 25 January 1995 "On additional steps to attract foreign investments in the Russian Federation's physical production sector." This edict has not been annulled, although in the opinion of attorneys, this ought to have been considered as an individual privilege because it was received on the basis of a presidential edict, not the law "On the customs tariff," and investments in Russia's economy, not the conclusion of an intergovernmental agreement, are a condition for it. It is assumed, however, that in the future the procedure for granting and controlling foreign trade privileges will be worked out for each intergovernmental agreement; this was done in 1991, for example, when an agreement was concluded between the governments of the USSR and the MPR [Mongolian People's Republic] "On the activity of the Mongolian-Soviet mining and concentration enterprise "Erdenet." The commodities shipped to Mongolia by the Russian side for operation of the joint venture are moved across the border without payment of customs export duties.

So the real opportunities to supplement one's budget at the cost of the federal budget are not so few. Although henceforth those wanting such privileges will have to overcome rather important obstacles. The point is that as KOMMERSANT was told at the Control Administration, in conformity with the president's edict on budget policy, absolutely all drafts of presidential edicts on the granting of privileges are to have two conclusions from now on—from the Expert Council attached to the president and the Control Administration. The first one will be on the effect on the economy and the availability of budget funds, and the second one will be on the use of previous funds as assigned, "and not for buying Mercedes."

The Special Exporters Are Gone. Perhaps For Good

Along with the deferments in customs duty payments, the president also abolished the institution of special exporters. Not everyone supported this step, by the way. In the opinion of Oleg Davydov, minister of foreign economic relations, eliminating the institution of special exporters may lead to uncontrolled access to the export of strategically important raw material commodities—especially oil, as a result of which "all the oil will be exported and the country's economic life will be completely disorganized." The opinion of Oleg Davydov is often supported by other government officials. One of them, in particular, stated that there has simply been a redistribution of spheres of influence under the slogans of foreign trade liberalization: "If those who maintain that a state official is an extortionist are correct, then the center

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for extortion has simply been moved from one department, the MVES [Ministry of Foreign Economic Relations] to another one, the Ministry of Fuel and Energy. There is only one pipe, all the same, and instead of 14 exporters there will be 100, and only the 'fee' for entering the pipe will be increased."

On the other hand, the institution of special exporters in the form in which it existed until recently was unacceptable, inasmuch as there was no competition for the right to export. In the opinion of many specialists, it would have been more logical to put the questions of price formation and access to the oil and gas pipelines in the hands of the exporters' unions. However, the edict does not address whether this will be done or how. Without having the appropriate decisions on this matter at its disposal, KOMMERSANT will abstain from comment at this time.

The Budget May Not Win Anything Either

On the whole, the abolition of individual privileges and the class of special exporters may have a stabilizing influence on the entrepreneurial climate, but the influence of edicts on the economy is not so unambiguous. Let us point out, first of all, that commodities (consumer goods) imported by "the privileged ones" are in certain commodity groups which account for a large share of market funds. Consequently, we may assume that the dynamics of consumer prices will be speeded up noticeably. This in turn may lead to a substantial direct over-expenditure of budgeted funds in the next stage of indexing minimum wage and pension rates, as well as a shortfall in the profits tax on the above-norm wage fund. Second, the "privileged regions" may very well respond to reduction of their incomes by freezing transfers to the Ministry of Finance's budget account of federal taxes collected in their territories (this has happened more than once). Third, a possible increase in the flow of exports of raw material commodities may lead to an increase in domestic prices for energy resources, the production of energy-intensive technologies, etc. Hence a decline in profitability for industry as a whole appears to be inevitable. In our opinion, reducing the tax base by sectors in the first and second redistribution will be on a broader scale than its short-term increase by increasing the profitability of raw material sectors. Moreover, let us point out that the large commercial banks in which the special exporters have held their transit accounts will lose a certain part of their active assets, which may lead to some business recession in the high-income sectors of the money market.

On the other hand, it is highly likely (after the liberalization of raw material exports) that there will be an increase in the stock quotations of enterprises in the raw materials complex, except for the stock in enterprises which have been deprived of privileges, but demand in the currency market probably will settle down somewhat, which may lead to a slowdown in its dynamics, especially as the overall wave of inflation is now heading into a decline.

* * *

Enterprises and Departments Deprived of Foreign Trade Privileges

The Ulyanovsk Aviation Industrial Complex
The Fund for Disabled Veterans of the Afghanistan War
The Oskolskiy Electrometallurgical Combine
The Kolskiy Nuclear Power Plant
The nongovernment organization "Russian Club"
Enterprises in the aluminum, coal, and petroleum industries
State radio and television companies (88 total)
The Russian information agency NOVOSTI
The "Rolan Bykov Fund"—an international fund to develop films and television for children and young people
The Pervouralsk New Pipe Plant
The "Sodruzhestvo" Fund
The Arkhangelsk Paper and Pulp Combine
The International Financial Fund for Land and Agro-industrial Reform
The Krasnoyarsk Electrochemical Plant
The "Bratsk LPK" AO
The Orsk-Khalilovo Metallurgical Combine
The state concern "Norilsk Nickel"
The Metallurgical Plant imeni A.K. Serov
The "Gayskiy Mining and Concentration Combine" AO
The "Veselyy" Mine
Cultural and artistic enterprises
The Security Main Administration of the Russian Federation
Internal affairs organs of the Russian Federation
The "Gazprom" RAO
The National Sports Fund and its enterprises
The All-Russian public associations for the disabled
The Russian Information and Telegraph Agency
The "West Siberian Metallurgical Combine" AO
The "AvtoVAZ" AO
The All-Russian Motor Vehicle Alliance" AO

Regions Deprived of Foreign Trade Privileges

Udmurtia
The Volga region
The Chuvash Republic
The Republic of Khakasia
The Komi Republic
Kaliningrad Oblast
The Republic of Karelia
Murmansk Oblast
The Buryat SSR
The Republic of Dagestan
The Republic of Adygeya
The Republic of Sakha (Yakutia)

*Investment Corporation Head on New 'Realist Union' Movement

954E0760B Moscow ROSSIYSKIYE VESTI in Russian 23 Mar 95 p 2

[Interview with Yu. Petrov, chairman of the Realist Union, by R. Lynev; place and date not given: "Union of Realists"]

[FBIS Translated Text] **Yuriy Petrov, the 56-year-old chairman of the State Investment Corporation (Gosinkor)**

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and of the "Realist" club, who once headed the administration of President Boris Yeltsin, became one of the initial creators of the new "Union of Realists" sociopolitical movement. On the eve of the constituent assembly of that movement, he gave ROSSIYSKIYE VESTI an interview.

[Petrov] First this is a movement, not a party. Second, it is independent. Third it is not reviving old goals and methods but is trying to offer new ones.

[Lynev] We will be talking about them—now this. On your desk there is a photograph of President Yeltsin with his grandchildren. Are you still close to the president?

[Petrov] For many years we had close ties primarily because of our common cause and work. We were also neighbors. He gave me that photograph on my birthday in 1993.

[Lynev] Before or after you left the administration?

[Petrov] Actually, it was just prior to my departure. The matter is that I had been studying and thinking about various mechanisms for organizing the investment process in the transitional period from a command to a market economy. I knew the old system well having for many years worked on problems pertaining to construction in Sverdlovsk Oblast. The concept for creating a state investment corporation occurred on the basis of that knowledge and the new realities. I shared it with the president and on the whole received support and understanding. Almost two months were spent on preparing the edict, and in early February 1993 it was signed.

[Lynev] That means Gosinkor is two years old. The problem with investments, however, seems to have grown during that time, isn't that true?

[Petrov] That is true. As far as Gosinkor is concerned, however, we do not waste government money invested in us and are paying for ourselves. Investment structures required in the transitional period have been created and are functioning. At the present time our holding company has two insurance companies, an investment bank, a trust and finance company, and a trading house. We founded a bank for the support of entrepreneurship and several joint-stock companies, including those supporting small business. A significant amount of work has been carried out and is being conducted to evaluate the prospects and determine the most effective ones.

Together with a number of American companies we are the founders of the $200 million Partners of Russia Fund. We consider the creation of such funds to be one of the most important directions followed in our work inasmuch as our participation serves as a magnet and a guarantee for foreign investors while allowing us to attract from $30 to $100 for every dollar invested.

Together with the Academy of Management and Market we are taking an active part in the training of personnel for a market economy. That is an established task of Gosinkor. Much can be said. Two years of intensive work by the collective was not wasted. We are not completely satisfied yet, and it is possible and necessary to do more.

[Lynev] What are the main reasons?

[Petrov] Many of those in government viewed the creation of this corporation, to put it mildly, in a rather cool manner. That explains the delay in the resolution of both elementary and underlying issues connected, for instance, with the granting of resources to the corporation in accordance with the presidential decree. These issues are being resolved rather poorly at present. The statutory capital of the Russian Company for Insurance of Investments (its task is to protect foreign investments against political risks) is only $85 million. It is embarrassing to cite such a figure to clients. All companies like that throughout the world operate with billions of dollars. In our case, however, there is talk and red tape. Over the past four months the Bank of Russia and the Ministry of Finance have been unable to come to an agreement between themselves on the order in which the corporation is to receive funds in accordance with the presidential decree that was issued back in November 1993. In other words, the bureaucracy and irresponsibility, as well as a devil-may-care attitude toward any assigned task, are felt literally at ever step. We ourselves have not really done everything possible either. We shall continue to work further.

[Lynev] I understood that the goal of the Realist club organized a year ago, which you also headed, is the preparation of recommendations for politicians.

[Petrov] Yes. Tedium is the scourge of not just ordinary people but of players in big politics as well. It rarely affords them the opportunity to stop to think about the consequences of today's actions and decisions. In view of the fact that mutually acceptable decisions are most often worked out at the juncture of various interests, we attempted to involve people from a great variety of spheres who hold divergent views—except for those with radical views, of course—in the work of the club. They are managers, entrepreneurs, and representatives of the intelligentsia. Meeting once or twice a month, they discuss pressing problems of Russian society and propose methods for resolving them. Geopolitics, economics—particularly the problem of investments, as well as banking—the role of government in the transitional period, and the state of the armed forces are all topics that were discussed lately. Materials produced by the discussions are published in separate brochures and recommendations are forwarded to organs of power.

[Lynev] What is the result?

[Petrov] We managed to garner the interest of a number of State Duma deputies and they actively joined in the work of the club. It proved to be somewhat more difficult to reach organs of executive power.

[Lynev] Was the decision to shift to direct political action with the creation of the new Realist Union movement a result of that?

[Petrov] In part, of course, it was the result of that, but the matter is also that today there are a large number of political parties and movements operating at the center and at the local level which are resolving essentially the

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same problems as we and offering the same or similar methods for resolving them. They may even be offering some different ideas, but is it wise to scatter such human potential? It would be wiser to amalgamate and channel it for the common good, for the swiftest possible emergence of Russia from the current crisis.

One of the goals of our movement is to place truly worthy individuals in position as leaders of the country: competent, highly moral individuals, profoundly loyal to Russia who are capable and know what must be done and how.

[Lynev] Who became the founder of the movement and when was its creation officially announced for the first time?

[Petrov] The creation of the movement was announced for the first time in December of last year at a congress which took place under the motto: "For realism, creation, and humanism."

Ten legal bodies became its founders. They include the Realists Club; the Creation Social Movement; the Humanitarian Party; the Movement of Humanitarian Forces; the Civil Union Association; the Moscow Zemstvo Movement; the Peace on the Oceans International Committee for Peace, Disarmament, and Ecological Safety on Seas and Oceans; the Fund for Development of Russia; the Slavic World Social Association; and the Democratic Renewal Fund. We believe that our movement will have a left to center orientation.

[Lynev] On what social base will the movement rest?

[Petrov] On the broadest one, without differentiating any particular social group—entrepreneurs, the intelligentsia, or workers—and certainly not setting them against each other. It is not normal when peasants in the public sector are against the farmers, the entrepreneurs against the hired workers, democrats against patriots, and the older generation against the youth.

Our social base is to overcome radicalism—not to destroy but to create. The president also agrees with such an approach.

We will hold our first conference of the movement on 25 March to discuss immediate and strategic tasks, agree on principles, forms, and methods of work, and adopt appropriate documents.

I feel confident that the movement will firmly declare its desire to cooperate with all parties, movements, and organizations that are close in their approaches and tasks, while being prepared for really creative work in the name of Russia and the welfare of its citizens.

*Yasin Presents New Economic Program

954E0778B Moscow KOMMERSANT-DAILY in Russian 21 Mar 95 p 2

[Article by V. Borodulin: "Two Days Remain Until Adoption of Government Program"]

[FBIS Translated Text] The end of last week and all of this will undoubtedly pass for the Russian political and economic establishment in discussing the government's new economic program. Last Saturday the government itself was making some last-minute corrections (having gathered in a small circle at the White House), while yesterday the Federation Council held hearings on that topic. It is necessary to note that Economy Minister Yevgeniy Yasin acquainted the legislators not with the program itself but with its presentation under the unreadable heading of "On the Draft of Basic Positions of the Concept of Economic Development of Russia in 1995—1997." By the way, all discussions will end by Friday. That is when the "big" session of the government with participation of the president, which will "on the whole" approve the three-year plan worked out at Volynsk, is planned.

Parliament did not like the unfinished program

The parliamentary hearing on the economic program of the government that took place yesterday in the Federation Council was very reminiscent of a student lecture, or rather two lectures: one delivered by an unpopular professor, and the other by one whom the audience is ready to listen to regardless of what he says. Economy Minister Yasin, who represented the government program, got the role of the unpopular instructor while Academician Dmitriy Lvov, the public's favorite, presented the alternative program worked out at TsEMI [Central Economic and Mathematics Institute]. The continuous din in the hall of the Federation Council during Yasin's appearance was replaced by applause for Lvov who was brilliant from the viewpoint of the laws of rhetoric.

The informal nature of the hearings was also manifested by the fact that almost every speaker left after his own presentation (that was particularly evident during the time before lunch). The atmosphere of yesterday's hearings, however, cannot be explained just by the organizational weakness of its organizers. Rather, under conditions existing in Russia, it is possible to talk about the difficulty with which this completely necessary and natural form of parliamentary work is becoming rooted. With few exceptions, most presentations of any significance still end after the first hour of work, while during the remaining three to four hours of discussion it is possible to glean anything reasonable only by carefully reading the minutes.

As far as the meaningful aspect of the hearings is concerned, the position of the Ministry of Economy, which did not risk submitting the "yellow book" of the government (the program already published in a limited edition got that name from the color of its cover), is completely natural. On Saturday it was subjected to criticism at a specially convened session of the presidium, and at present, according to a highly placed government official, it is being extensively edited. As indicated to the KOMMERSANT-DAILY correspondent by Ivan Materov, deputy minister of economy, differences among members of the government were caused by "insufficient branch detailing of the program." Translated into the Russian language this means that the "general economic" program does not include concrete financial promises to individual branches of the economy.

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The Ministry of Economy Prepared an Author's Abstract

At the same time one should not expect that in one week some serious changes will be made in the program which has been in development for almost six months. This is also indicated by the fact that presentation of the program for the legislators, in essence, is an author's abstract of recent government declarations and the presidential message. Possibilities of a moderately rigid financial policy have been exhausted and transition to a new type of economic reform is impossible without firm financial stabilization. In accordance with this, the government is drawing "a tree of goals," the main one of which is to achieve the renewal of economic growth in 1995-1997. For that purpose it is necessary, first, to reduce inflation to 15-20 percent a year; second, to diminish investment risks; and third, to stimulate savings in national currency and ensure their transformation into investments.

It is proposed to achieve those goals through a substantial cutback in subsidies in the economy, an increase in real revenue of the budget, and a rise in the share of state expenditures financed with government bonds in an amount of up to 1.5-2 percent of the gross domestic product. In its program, the government promises that this year it will do away with extending budget loans at a below-market rate, while greatly limiting the practice of granting deferments for the payment of interest on previously issued credits and also discontinuing the centralized distribution of credits. At the same time the government declares its intention of completing tax reform which must "shift the tax burden from enterprises to the income and property of physical bodies."

In the area of institutional transformations, the cabinet of Viktor Chernomyrdin proposes to devote primary attention to consolidating law and order, completing the second stage of privatization, regulating the process of bankruptcies, and developing the securities market. In addition to that the government intends to eliminate the right of economic management by transforming state enterprises into joint-stock companies with 100 percent participation of the government. One of the measures for developing the exchange market presupposes eliminating "unreliable securities" from it. These include bearer shares, certificates of share deposit, and treasury bonds. In foreign economic activity a lowering (with subsequent elimination) of export duties is being declared, along with elimination of all previously granted benefits in the sale of foreign currency proceeds and a gradual shift over to a regime of total domestic convertibility of the ruble.

Strictly speaking neither the positions of the government program nor the key principles of the program of Dmitriy Lvov are news. Expressing surprise at the "rigidity of government economists" and the "wretched conceptualization" of their work, the academician declared that the "highly moral economy of Russia" deserves more than a primitive struggle against the budget deficit. First of all, in his opinion, it is necessary to make a major change in the current "faulty" tax policy shifting the accent to tax on profits (45-50 percent) and subsequently completely shifting to rental taxation. In addition to that, in Lvov's opinion, subsidies in the economy should not be eliminated at all. On the contrary, it is necessary to expand the action of that mechanism as much as possible, while state expenditures should be financed, regardless of revenues, by using Central Bank credits. The entire complex of measures envisaged by the Concept of Economic Reforms in Russia must halt the process of "deindustrialization of the national economy" and reorient it toward resource-conserving technological processes and production with a high added value.

By the way, further quoting the work by the opposition academician, which is richly illustrated with figures (by contrast with the government program), is almost senseless—Professor Yasin has not heard the report of his colleague. In addition to that, no one, of course with the exception of Boris Yeltsin, has enough power to stop the copying machine from printing copies of the "yellow book."

***Statistics on Foreign Investment Into 1994 Economy**

954E0778A Moscow KOMMERSANT-DAILY in Russian 21 Mar 95 p 2

[Article by V. Bardin: "Statistics Call For Activation of Investment Policy"]

[FBIS Translated Text] Evaluations of the volume of foreign investments in Russia have always been distinguished by their politically accommodating nature. There was also a great spread in the figures: from $1 billion in direct investments in 1994 to hundreds of millions of dollars a month (mainly through portfolio investments). In essence, these evaluations depended on the audience. Now the State Committee for Statistics has finally had its say. Data of the State Committee for Statistics is like a cold shower and, what is more important, it is a serious warning for those who believe that foreign investors will start playing an important role in Russian investment policy.

Data of the State Committee for Statistics, which, with all of the complaints against the Russian method of accounting foreign investments (particularly direct ones, which, as a rule, are considered to be not all investments, but only those made into statutory capital of joint ventures that are being created), is the only official data, proved to be even lower than the most pessimistic estimates. The State Committee for Statistics believes that in 1994 foreign investors put in only $1.05 billion in the economy of Russia. Also, foreign investments in Russian privatization are excluded from that amount without any explanation or comment. At the same time Russian financial experts estimate that this accounts for the biggest share of foreign investments. That is, the State Committee for Statistics informs only about direct investments and credits, and the amount of investments is divided between these two streams in an informal manner.

Even taking into account the incomplete nature of State Committee for Statistics data on portfolio investments, the size of such a key parameter as direct foreign investments

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in Russia, estimated at $549 million, must undoubtedly cause concern in the ranks of the Russian Government and primarily the Ministry of Economy. One thing is clear: official statistics confirm the drop in the investment rating of Russia. In terms of investment preference Moscow might surpass Baghdad. Russia remains at the level of Estonia among the republics of former USSR in the volume of foreign investments.

What conclusions may be drawn from the very modest foreign investment statistics? It is apparent that a change in the position of foreign investors in essence depends on two very important conditions—political and economic stabilization in Russia. Moscow cannot brag about either one. The agreement of Russia with the IMF on the extension of $6.25 billion in credit appears as the only ray of light against a generally very gloomy background, and it may also attract foreign investments, primarily in the form of credits.

Influx of Foreign Investments in Russia (Ministry of Economy Prediction)

1994	$1.0—1.5 billion
1995	$2.0—3.0 billion
1996	$5.0—6.0 billion
1997	$7.0—8.0 billion
1998—2000	$10.0—15.0

Branch Structure of Foreign Investments in 1994 (Data on Direct Investments and Investment Credits)

Branches	Investments (millions of dollars)	Percent of total
TEK [fuel and energy complex]	521.7	49.5
Construction	103.0	9.8
Woodworking and pulp and paper industry	49.5	4.7
Machinebuilding and metalworking	43.4	4.1
Other branches	276.7	26.8

The latest innovations in Russian economic policy will cool the investors (by contrast with the creditors) despite the fact that they were adopted on the demand of the IMF. We are talking about the fact that under conditions of a far from favorable investment climate, virtually the only real stimulus for foreign investors consisted of the benefits. At present, however, benefits are not favored in Russia, and a serious struggle has been unleashed against them. Those who have suffered include foreign investors as well. Let us cite just two examples. The law on foreign investments is not named among those whose benefits are being preserved in the law on certain questions of granting benefits to participants of foreign economic activity which was adopted. Second, tax benefits were lost by the Yantar Free Economic Zone (Kaliningrad Oblast), one of the most advanced Russian free zones.

The conclusion that is drawn is not a consoling one: the expectation that foreign investments will become a strike force of the new investment policy of Russia is hardly correct. It is true, hopes do remain and they are linked primarily with legalization of production sharing, if one sets aside global problems of economic and political stabilization. It is only the adoption of a law on agreements concerning division of production, which has already successfully gone through the first reading, that may lead to an increase in direct foreign investments in Russia to the level of $7—8 billion. Therefore legislators are quite capable of animating the influx of foreign investments in Russia.

*Creation of Moscow Municipal Bank Projected

954E0736A Moscow KOMMERSANT-DAILY in Russian 16 Mar 95 pp 1-2

[Article by Viktor Ivanov: "Creation of the Moscow Municipal Bank: Moscow Has Taken One More Step Toward Financial Independence"]

[FBIS Translated Text] **The Moscow authorities have made progress in realizing one of their most important economic ideas. This idea is the commercial use of city budget capital independent of the Center in an attempt to alleviate the crisis of Moscow finances somewhat. Yesterday the mayor's directive "On Creation of the Moscow Municipal Bank" was officially distributed. True, the federal authorities are in the same financial crisis as the Moscow authorities and are far from delighted with the idea of municipal banks.**

The creation of a municipal bank is perfectly logical from the standpoint of the Moscow authorities' economic policy. The point is that the Moscow Government (like, incidentally, the authorities of most Russian regions) adhere to the idea of commercial use of city budget capital, which is generally not typical of world practice. There is nothing surprising in that—local authorities in Russia are experiencing much greater financial difficulties than their colleagues in Western countries and perforce must try to increase budget incomes.

Initially this idea took the form of the Moscow Government placing budget capital in authorized commercial banks. The history of authorized banks began back in July 1993 and was accompanied by an overt and a covert struggle: The banks were trying to obtain access to budget capital, while the government was trying to obtain the most advantageous conditions for itself. Nonetheless, the system of authorized banks had largely taken shape by March of last year. But it was always obvious that the authorities considered founding their own municipal bank to be even more attractive—if only because it allows them to retain complete control over budget capital and facilitates financial maneuvering. Formally speaking, they can also allude to world practice in creating such a system—practically every country has a highly developed system of municipal banks. Consequently, despite how attractive interrelations with authorized banks are to the authorities, they have always kept the idea of a municipal bank in mind.

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The first official decision on this score appeared in January 1995; the mayor signed the directive "On Priority Measures To Create a Municipal Bank." But a more detailed document has now appeared—the directive "On Creation of the Moscow Municipal Bank," which establishes the bank's status and its charter. Thus, the creation of the municipal bank can already be considered almost an accomplished fact. In any case, this means an erosion of the system of authorized banks. It was no accident that at the same time as the January directive on plans for creating a municipal bank, some of the budget accounts were withdrawn from the authorized banks and are presently ("until the creation of a municipal bank") under the management of the Central Bank State Administration for Moscow. Although formally the final collapse of the system of authorized banks has not occurred: The authorities are expressing the intention of continuing cooperation, insisting, it is true, on higher interest rates on daily balances in those budget accounts which still remain in those banks.

In principle the establishment of the status and charter of the municipal bank by directive makes it altogether possible for the Moscow authorities to achieve their goals. The bank will deal in hard currency transactions—which is very remarkable considering the existence of Moscow's special hard currency fund; transactions with real estate; and the emission of municipal securities. Moreover, with the very founding of the bank, the government intends to attract the capital (including hard currency) of private stockholders.

Clearly, the appearance of the Moscow municipal bank is important not only to the Moscow but also the federal authorities. The point is that the federal authorities traditionally take a very suspicious attitude toward the creation of municipal banks—it is no accident that the draft of the corresponding law has been sitting untouched in parliament since the start of 1993 (true, in July 1993 by special decree parliament formally allowed the creation of municipal banks "as an experiment"). The Center's guarded attitude toward municipal banks is altogether explicable. Given the budget crisis, the federal authorities are not at all interested in surrendering the right of control over local budgets—on the contrary, attempts are now being made to transfer budgets of all levels to the management of the Federal Treasury. Moreover, this is precisely what the International Monetary Fund is insisting on; it considers such a step a necessary element of budget stabilization. The problem has become so acute that, according to some data, the president's administration may undertake oversight of the federal treasury.

For its part, the Central Bank is not thrilled with the creation of municipal banks (in the exact same way as the placement of municipal budget accounts in authorized commercial banks did not thrill it either). To put it simply, the Central Bank is interested in maintaining its own control over bank use of capital of all levels of budgets.

The Structure of the Moscow Municipal Bank

General Stockholders Meeting—> Bank Council—> Bank Governing Board:

President (Chairman of the Governing Board)

1. Security Service
2. Credit Extension Administration
3. Automation and Organization Administration
4. Strategic Planning Department
5. Management of Bank Holding Company

First Vice President

1. Transactions and Accounts Administration
2. Client Services Administration
3. Means of Payment Transactions Administration
4. Credit Card Administration
5. Correspondent Relations with Resident Banks Administration

Vice President for Finances

1. Central Bank and Trusts Administration
2. Marketing and Economic Analysis Administration
3. Real Estate Operations Administration
4. Special and Project Financing Administration
5. Money Market Operations Administration

Vice President for Bank Development

1. General Secretariat
2. Planning and Coordination of Branches Administration
3. Buildings Operation Administration
4. Bank Development Administration
5. Personnel Work Administration

Vice President for Hard Currency Operations

1. International Operations Administration
2. Correspondent Relations with Foreign Banks Administration
3. International Dealings

Vice President

1. Accounting and Reporting Administration
2. Controlling Administration

Vice President for Legal Questions

Legal Administration

[Box, p 2]

—Conditions for Placing Stock of the Moscow Municipal Bank

—The bank's capital stock is R100 billion (with payment of at least half of the stock in the hard currency nominal price).

—Upon founding the bank, the Moscow Government buys up 51 percent of the stock.

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—Russian and foreign legal persons as well as international financial institutions can be stockholders of the bank. No stockholder's share can exceed 35 percent of the stock.

—Common named shares at double the rated value, R1 million or $1,000, are being offered for sale. The stock is offered in blocks of at least 100. There are 24,500 shares of stock offered for subscription at ruble value and 24,500 shares at hard currency value. The maximum number of shares which one person can acquire is 5,000 shares.

—There is competitive selection if the volume of bids exceeds 49 percent of the volume of the emission. Bids of banks with a high reliability rating and authorized banks have the advantage. If other conditions are equal, bids containing the largest proportion of shares of stock acquired at the hard currency value have priority.

*Trading on Moscow Interbank Currency Exchange

954E0685A Moscow KOMMERSANT-DAILY in Russian 10 Mar 95 p 7

[Unattributed article: "The Dollar Is the Dollar Only in Russia; Everywhere Else It Is the Mark"]

[FBIS Translated Text]**Against a background of events on the world market, the fact that the dollar's position in Russia appears more than stable is of little consolation. Between 3 and 9 March, quotes on the Moscow Interbank Currency Exchange were up 108 points (2.4 percent) reaching 4,639 rubles/$ yesterday. Even though the growth tempo of the exchange rate dropped somewhat as compared with the corresponding period of last week (at that time the dollar went up 2.81 percent), there is no reason to doubt a further steady rise in the dollar with relation to the ruble.**

The one day interruption in operation of the MMVB [Moscow Interbank Currency Exchange] caused no perceptible changes in the situation on the currency market. It is probably worth noting that the traditional midweek sag in the net trading volume this time was not accompanied by a rise in total trading volume. As a rule, these indices demonstrate specifically such indices in the course of the week. The highest volume of trading occurred on Tuesday [7 March], when the banks were apparently attempting to satisfy their needs on the eve of a holiday and also prepare for the next GKO [government short-term bond] auction, which has been moved from Wednesday to Thursday. The fact that participants of the financial market conducted their main operations yesterday on the government short-term bond market also explains a decrease in their activity in the currency segment.

In particular, the demand for currency funds decreased yesterday by $15.91 million compared with previous trading and amounted to $70.9 million. The decrease in selling volume was more significant: the initial offering decreased by $23.96 million and yesterday was at a level of $52.50 million. The negative difference of $18.42 million, which theoretically formed in trading, did not provide grounds for such an acceleration in the rate at which exchange quotations rose; yesterday the dollar rate went up 36 rubles [R] (which is the maximum for the last month) and reached R4,639. It is worth considering, however, the "holiday" nature of such an increase. The rise in quotations over two days by 36 points readily fits into the customary movement of the dollar.

The Central Bank brought the exchange rate to the level corresponding to the moment. According to information provided by the Ratex agency, its intervention in the course of trading amounted to $18.4 million. In that manner the Central Bank canceled practically the entire difference between demand and supply with the already customary passivity of commercial banks on the currency exchange.

The low activity of banks on the currency exchange is also reflected in the volume of trading recorded yesterday. The total volume of trading (gross turnover) by comparison with previous trading decreased by $13.19 million to $67.90 million. Net trading volume amounted to only $5.92 million; that is it decreased by a factor of almost seven.

Under these conditions it is possible to consider the dollar exchange rate forming outside the exchange market as corresponding to the existing market moods to a much greater degree (that is reflecting current tendencies on the currency market to a greater degree). By the way, yesterday quotes on the interbank exchange went through some very substantial fluctuations: the rapid morning rise in the interbank rate (which at the same time raised the rates for "short-term" credit as well) by mid-afternoon was replaced by a drop in it, but the dynamics of the rate outside the exchange again changed direction and quotes rose to 4,625 rubles/$. In the opinion of the dealers, the increase in the magnitude of fluctuations in the exchange rate in direct interbank transactions is connected with the actions of big operators, who shifted their accent from the exchange to outside of the exchange.

On the contrary, it is specifically the exchange segment which remains the most attractive one for operations with the German mark. Following tendencies on world financial markets, the mark grew steadily all week in MMVB trading, even though it was not at as rapid a rate as it could have been considering the leading role of the dollar as a reserve currency on the Russian market is being felt. Nevertheless the rise in the mark exchange rate in Moscow fully corresponded to its rise on the western markets; by yesterday the mark in Moscow was 1.3981 (cross rate through ruble) and 1,4030—1,4040 in London. At the same time attention is attracted by the colossal variation in quotes of the German mark on Russian currency exchanges. For example, on 3 March the difference between the maximum and minimum price of the mark in Russia was as high as 8.16 percent (for more detail see the survey ROSSIYSKIYE VALYUTNYYE RYNKI).

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*Changes in Regional Bank Expansion Viewed

954E0789A Moscow IZVESTIYA (Finansovyye Izvestiya Supplement No 18) in Russian 16 Mar 95 p 3

[Article by Mikhail Delyagin, acting chief of the economic division of the analytical center under the president of Russia: "Banks Cast Dealer Nets Over Regions"]

[FBIS Translated Text] Russian banks' regional policy is currently undergoing a principal change, or, to be precise, an improvement of the methods of expanding into new territories. Opening a branch remains the most widespread method.

However, increased competition in banking in the environment of skilled cadres and limited financial resources is hampering the process of creating new branches, despite the continuing shortage of banking institutions in Russia as compared to international norms.

Not legally independent but managed as a rule by active and ambitious teams, branches by their very nature require strict administrative control that ensures complete subordination of managerial teams to the center and their—to a certain extent unnatural—orientation first of all to the bank's interests rather than their own. It appears that Russian Credit has achieved the greatest success in imposing such control. However, in addition to the difficulties associated with keeping skilled auditors on staff, strict control shackles the branch's initiative, undermining the very idea of branches as active and enterprising outposts in the expansion of a bank's sphere of influence.

At the same time, the size of material investment and administrative efforts needed to set up one branch does not permit allowing their collectives to "run their own shop," as is the practice with foreign currency exchange offices. Unable to impose strict control over the latter, many banks have established a system of relations resembling consignment in trade: The exchange office gets its working capital from the bank and surrenders to it a certain set profit, keeping excess profit to itself or covering the shortage out of its own pocket.

In a hypothetical instance of an exchange office personnel's bankruptcy, the bank's loss, and its expenses in setting up the exchange office, are minimal. However, the cost of setting up a branch are greater by several orders of magnitude; hence, the bank cannot treat them with Olympic calm.

The maximum level of a branch's independence is economic independence, whereby branches practically become subsidiaries. Unfortunately, in this case the bank becomes their hostage, since it is completely liable for their obligations while deprived of the ability to effectively monitor their professionalism and integrity.

As a result, banks that choose the road of giving their branches maximum freedom encounter unpleasant financial surprises, which negatively affect their image and balance sheet, resulting in a gradual surrender of positions to competitors.

The most modern and technological form of regional expansion is working with authorized local banks, which, while remaining formally independent, become strongly dependent on capital city banks, whose operations gradually become a critically important part of their balance. To all intents and purposes, this practice turns local banks into branches of "aggressor" banks, but cannot be curtailed by administrative measures on the part of local of central authorities.

Banks that implement their regional expansion through such "soft" methods, on the other hand, reap double benefits as compared to the regular method of setting up branches: First, they are liable for obligation of the banks under their wardship; and second, their presence in the market may remain unannounced to everyone except authorized banks.

This sets the mechanism of regional expansion through agent-banks favorably apart from even that of acquiring subsidiary banks, in the course of which "parent" banks, first, "expose" themselves, and second, invest money in the capital of the acquired structures. "Soft" forms of cooperation, on the other hand, ensure maximum independence for agent-banks, while supporting them financially and exercising control over their activities and reducing the "parent" bank's expenditures and risks to a minimum.

The mechanism of banking expansion by forming a network of agent banks resembles the mechanism of forming dealer networks by automotive or computer companies, where all dealers, retaining complete independence and initiative, are tied into a single structure with the parent firm, which flexibly reacts to changes in the state of the market and is distinguished by a high degree of concessions.

*Trading on Moscow Interbank Currency Exchange

954E0769A Moscow KOMMERSANT-DAILY in Russian 17 Mar 95 p 7

[Article under the "Hard Currency Trading in Moscow" rubric: "Banks Temporarily Change Direction of Arbitration"]

[FBIS Translated Text] **Events on the market of dollar exchange operations are not brimming with diversity. The Central Bank (TsB), which is in full control of the situation, is providing for a smooth and virtually even rise in stock quotations. From 10-16 March, the dollar's rate of exchange on the Moscow Interbank Currency Exchange (MMVB) rose by 128 points (or by 2.8 percent), reaching 4,767 R/$ (rubles per U.S. dollar) in yesterday's trading (a week ago, the exchange rate rose by 2.4 percent). The German mark is growing at a much faster rate, with its rate as of yesterday being substantially higher than the world level.**

A distinguishing characteristic this week is that by the middle of the week the banks had changed direction of their exchange operations, shifting from primarily selling hard currency to buying it. Changing accordingly were the absolute levels of initial requests. If when selling was the

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main focus the TsB had to direct significant funds toward forming initial demand to ensure the rate of exchange's movement along its trajectory, then now this position is largely being formed out of funds from commercial banks. In this way, the general decline in the market's capacity and the decrease in the gap between supply and demand seemed more or less proper by mid-week.

In particular, in yesterday's trading the demand for hard currency funds dropped by another $15.59 million to total $70.98 million. The volume of initial requests to sell hard currency funds declined in comparison with the corresponding index from previous trading by $10.74 million and was at the $59.47 million level yesterday. Once again, the TsB played the principal role in eliminating the negative difference between supply and demand that had arisen, according to the Ratex agency. Of the $11.51 million difference, it eliminated $11.47 million by putting up these funds for sale and thereby closing trading. The TsB undertook its actions in order to achieve a balance between supply and demand at a moment when exchange quotes had risen to the "necessary" level: 23 points. The dollar's rate of exchange yesterday was 4,767 R/$ (in the course of the week the dollar rose very evenly on the exchange).

The gross circulation of yesterday's trading virtually did not differ from the level of initial demand: declining by $15.60 million, the total volume of operations coming to $70.94 million. The net volume, on the contrary, rose by $5.19 million in comparison with the indicator for previous trading and yesterday was at a level of $11.62 million, which also speaks to the preservation of the tendency to purchase hard currency.

In principle, the reasons for the reorientation of the banks' operations are perfectly understandable. Chief among them is the noted increase in the rate of exchange on the interbank market over that of the exchange market achieved by the beginning of the week. Simple arbitration had led to the purchase of currency on the exchange and its resale on the non-exchange market. At the same time, the active sale of hard currency on the interbank market yesterday had already led to the rate of exchange for direct deals "overstaying," so that the leaders are not excluding the possibility that early next week the situation may resume its usual course; that is, once again the banks will begin to sell hard currency on the exchange, and once again the TsB will have to activate its participation in forming initial demand.

In general, this kind of arbitration between the exchange and the interbank market today is one of the banks' main operations on the currency exchange. At the same time, according to the testimony of the leaders themselves, the influence of the TsB is very great on the interbank market as well. Accordingly, the corridor for arbitration profit from these kinds of operations is also determined by the TsB to a large extent. Thus, it is hardly justified to think that the banks, by means of more or less frequent changes in their direction of operations, will be able to shake loose the state of affairs in the dollar market. At least there is no doubt that in the very near future the development of events on the exchange market will not change. In particular, the dollar's rate of exchange more than likely will return its existing rates of increase.

As before, less predictable is the behavior of the German mark: for all its unquestioned maintenance of its overall tendency to strengthen, the mark's rates of growth are not demonstrating the kind of stability characteristic for the dollar. In particular, on Monday and Tuesday the rate of exchange for the German mark in MMVB deals remained unchanged, but yesterday the mark made up what it had missed with interest. All of a sudden its rate of exchange rose by 127 points, to 3,506 R/DM . In summary, the rate of exchange of the mark to the dollar (through the ruble) came to 1,3597 DM/$, whereas in London, for example, this figure was 1,3938 DM/$. The behavior of the German mark in Moscow is unlikely to change significantly even after the Moscow exchange introduces a lot system of trading for this hard currency (see material on p. 5).

*Moscow Municipal Bank Named Repository for City's Money

954E0760A Moscow ROSSIYSKAYA GAZETA in Russian 23 Mar 95 p 3

[Article by V. Kucherenko: "Where Are the Moscow Trillions Moving? Someone To Form Base for Municipal Bank"]

[FBIS Translated Text] The news that the mayor of Moscow is transferring capital budget money from Most, Stolichnyy, Menatep, and other banks to the newly formed Municipal Bank caused a stir in the business world. That is no joke: a single bank for the treasury of the richest city in the country whose estimated 1995 deposits are 24 trillion. What kind of a structure will that be?

We discussed this topic in the article "Moscow Mayor Moves Moscow Trillions" (18 January 1995). It seems that Yu. M. Luzhkov has initiated reconstruction of his completely damaged financial-administrative machine which has lost Most for political reasons.

According to information available to us, the working group of the municipal council, headed by A. Borodin, is planning for the new bank to have statutory capital of 100 billion rubles [R], and the Moscow government will take over 51 percent of the shares.

A total of 24,500 shares will be issued, all valued at R1 million, and an equal number will be issued, all valued at $1,000 [rubles and dollars as published?]. Who will get the remaining 49 percent? The information we have partly confirms our assumption. Thus the authorized banks of the city government—that same "closed club" consisting of Most, Menatep, Stolichnyy, Tekhno Bank, and Natsionalnyy Kredit—will get the primary right to acquire the shares. In other words, everything that seems to be new may turn out to be a slightly altered old system. It is not precluded, however, that different banks, which are in the highest and high reliability category, may also be admitted into this "club." It is assumed that in the course of the competition, candidates from among such banks will

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submit proposals on cooperating in realizing Moscow programs. Finally it is planned to sell shares to those general city enterprises and establishments wishing to acquire cash securities. The minimum bloc for purchase is expected to include 100 shares and the maximum bloc to include 5,000 shares. The "closed club"—the Moscow Municipal Bank—will be located in the city council building on Novyy Arbat, on the square presently occupied by the Treasury Union.

In that manner this "privatization" of the Moscow budget, which is comparable in size to the revenue of an entire country, can enter its final phase. The new bank threatens to occupy its place among huge financial monopolies controlling the very heart of the country. As a result, Yu. Luzhkov will sharply intensify his influence in the economic and political sense, having acquired the firm support of a powerful financier.

It is noteworthy that according to our information, the Municipal Bank was created on the basis of the already existing Commercial Bank with a Central Bank of Russia license. That will make it possible to circumvent the many difficulties involved in registration along with "uncomfortable" questions from federal authorities. It is said that two candidates are being considered for the role of such a base—"puppets" of a new monetary empire: Stolichnyy Savings Bank and Aeroflot Bank. The former, however, is already a self-sufficient entity, which (with Most and Menatep as examples) may be regarded rather as a shortcoming. In addition to that it has already invested a sufficiently large amount of energy and funds on reorienting its activity in order to work with the savings of citizens. Therefore observers are inclined to give their preference to the TOO [limited liability partnership] Aeroflot Bank.

Many facts support that version. First of all this bank does not belong among the largest ones in turnover or volume of attracted funds or in the size of its statutory capital (R9 billion or less than $2 billion). Existing since 1988, it received its general license only on 7 October 1994. Therefore it has a reason to gladly agree to the role of "a shell" for the Municipal Bank.

It is probably no accident that the mass media in Moscow began painting Aeroflot as "a whale on the Russian dimension." In late 1994 it joined the "closed club" of financiers in Luzhkov's government, participated in forming and utilizing the pool of real property of the capital and in the sphere of financial circulation on the security market. It is one of the participants in the obligatory Moscow loan which will be issued in the near future.

It is believed that Aeroflot is being guided by a very strong hand. First it formed a part of the RENA Joint-Stock Company together with Moskomimushchestvo [Moscow City Committee on the Administration of Property] and the Department of Engineering Support of the capital to attract foreign funds (under the guarantee of Luzhkov's government) for the overhaul of the "false teeth"—the four skyscrapers on Novyy Arbat. Then one of them sells almost $140 million directly to Aeroflot despite the fact that both Russian and Moscow laws were being violated (rather wealthy tenants occupy that building, who have a priority right to purchase the property). More than that, such a transaction ruinous for Aeroflot Bank may also be explained by the fact that it expects to become the base of a new superstructure with its influence and fantastic income.

There is a view that substantial resources may be attracted from abroad (up to $69 million) for that operation with the skyscraper and the "base." Events in the very near future will show how realistic these observations are.

*Trading on Interbank Currency Exchange Detailed

954E0780A Moscow KOMMERSANT-DAILY in Russian 21 Mar 95 p 7

[Unattributed article: "Central Bank Puts Banks in Tight Spot"]

[FBIS Translated Text] The week passed with relative peace on the interbank currency exchange. The small difference between exchange and outside quotations, maintained at first by the Central Bank and then by the banks themselves at a constant level, made it boring for currency dealers so the banks gradually lowered the volume of non-cash operations with dollars.

Infusion of rubles by the Central Bank into the interbank currency exchange on the preceding Monday, when the dollar exchange rate threatened to fall below the low mark in currency trading, yielded its results. For the entire week, the Central Bank managed to maintain the difference between the open and exchange dollar rates at a level of 30 rubles [R]. Maintaining that corridor at a constant mark gradually decreased the possibility for bankers to conduct currency arbitrage.

While throughout the past week dealers were still able to earn revenue from currency operations by buying non-cash currency at a lower exchange rate in trading on the MMVB [Moscow Interbank Currency Exchange] and then selling it on the interbank exchange, yesterday these speculations became practically impossible.

The new week started on the interbank exchange with the traditional drop in quotations. During the first half of the day the exchange rate gradually declined, approaching the exchange quotations: 4,807 R/$. By the end of the day the dollar was being bought at 4,800 R/$ in today transactions. In that manner the dollar proved to be overvalued by almost R10 in transactions with a transaction date of 20 March. Those banks that were not forced to buy the dollar yesterday at a higher exchange rate had no way of winning on the difference in quotations.

It was only by the end of the day that rubles began appearing on the open market. At the same time, according to information from banking circles, the Central Bank exerted practically no influence on the course of open trading. What is most likely is that the evening out of the exchange and interbank quotations was perceived by bankers as the limit to which the dollar exchange rate

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would fall on the interbank exchange, and they started buying up the already cheaper currency.

Yesterday's level of dollar quotations with a transaction date of 21 March evidenced the slowing down of the growth exchange rates of American currency on the interbank exchange. Today the bankers will be settling accounts on the interbank exchange at the exchange rate of 4,814 R/$. Considering the fact that in currency trading the Central Bank is maintaining the rise in the dollar exchange rate at a higher level, it is possible to anticipate a drop in interbank quotations below the currency trading index and consequently a change in the direction of arbitrage operations.

Thus far the Central Bank managed to achieve the desired results, and the amount of its intervention to support the growth in the dollar exchange rate at a constant level both in currency trading and on the open market decreased gradually.

At the Moscow Interbank Financial House, the volume of concluded transactions last week amounted to $56.6 million. Fluctuations in the dollar exchange rate were very insignificant—not more than R3. A slowing down in the growth of the dollar exchange rate last week was noted there as well. According to the latest transactions, last week the dollar exchange rate even went below the MMVB rate.

In addition to American dollars, trading last week at the Moscow Interbank Financial House included sales of 2 million tenge (at an exchange rate of R76.5), 20 million karbovantsy (at 144,500 karbovantsy/$), and 265,000 sumy (65.5 sumy/$).

Dynamics of the Dollar Exchange Rate on Interbank Exchange

	14 March	15 March	16 March	17 March	20 March
Tomorrow	4,760	4,780	4,780	4,810	4,814
Today	4,740	4,770	4,764	4,768	4,800
Exchange	4,723	4,744	4,767	4,788	4,807

Trading on the Open Currency Market

	Offering	Amount (thousand)	Beginning exchange rate	Ending exchange rate	Sale date
Interbank Financial House	Non-cash dollars	1,150	4,670	4,722	13 March 1995
Interbank Financial House	Non-cash dollars	13,650	4,691	4,763	14 March 1995
Interbank Financial House	Non-cash dollars	6,300	4,763	4,785	15 March 1995
Interbank Financial House	Non-cash dollars	1,800	4,769	4,784	16 March 1995
Interbank Financial House	Non-cash dollars	12,650	4,767	4,816	17 March 1995

*Criteria for Enterprise Bankruptcy, Liquidity Detailed

954E0734B Moscow ROSSIYSKAYA GAZETA (Biznes v Rossii supplement) in Russian 18 Mar 95 p 2

[Report by Andrey Neshchadin, Igor Lipsits, Dmitriy Nikologorskiy, and Yelena Vigdorchik of the RSPP [Russian Union of Industrialists and Entrepreneurs] Institute of Experts: "Bankruptcy in Russia: Poison or Medicine?"]

[FBIS Translated Text] **Specialists of the RSPP Institute of Experts believe that about 80 percent of enterprises may be classified as bankrupt in accordance with current insolvency criteria.**

The Federal Administration on Insolvency (Bankruptcy) Matters—the FUDN—in assiduously sidestepping the state's participation in shaping the nonpayments crisis, stubbornly maintains that it was caused "not so much by real economic problems as by financial and economic liberties." In the FUDN's interpretation, bankruptcy means bankruptcy of a business and bankruptcy of an owner—and only if steps are not taken in time—and then it may develop into bankruptcy of a production facility. Hence the priority attention given by federal authorities to the procedure for recognizing enterprises as insolvent as the basic "educational method" for reeducating "amoral businessmen."

If we proceed from the assumption that an enterprise has money but it does not want to pay or that an enterprise has all it really needs to earn this money but its manager does not know how to do this, the FUDN's position is logical. We must not forget, however, that it was not by chance that the Russian economy began taking "the narcotic of nonpayments." There are important reasons for that: it was stunned by the pain of suddenly becoming aware that many domestic commodities, enterprises, and even sectors were noncompetitive. This circumstance became completely obvious to the specialists when the flow of "petrodollars" dried up, markets in CEMA countries and the CIS disappeared, and Russia itself became open to world trade. For this reason, the word "sanation," if it is interpreted as real normalization and not as an educational method or a demonstrative process, cannot mean just concern about management and improvement in marketing organization and personnel incentive methods. Consequently, the experts emphasize, the bankruptcy of a production facility is inevitable on a level with the bankruptcy of a business and an owner.

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Everything is not so simple here, however.

First of all, domestic industry is a structure in which practically every large enterprise is a monopolist in one area or another. For this reason, both the state and private capital will be limited in their opportunities to completely liquidate such production facilities or to change their specialization.

Second, beginning the bankruptcy process may lead to the mass dismissal of employees. At the same time, neither the state nor local organs of authority now have resources at their disposal to pay for unemployment benefits, not to mention the funds to retrain workers.

Third, sanation, like bankruptcy, may cause problems with the financing of projects in the social infrastructure. The government is attempting in every possible way to accelerate the process of transferring projects in the social sphere to the balance sheet of local organs of authority, but it is not doing well with this at present, despite the desire of enterprises to get rid of the "social matters" which require large expenditures. Until local areas obtain an adequate and reliable source of funds, nothing is likely to change here.

So in Russia, bankruptcy really can be permitted today only for those enterprises with the following characteristics:

1. they have no projects in the social infrastructure,
2. they are not monopolies, and
3. the number of employees is small or they are located in regions where dismissed workers may find a job in other enterprises or organizations.

In any case, the actual procedure of "clearing" the economy of inefficient enterprises requires a great deal of money. This money should be from the state, if it intends to normalize an enterprise or abolish it and subsequently find jobs for the dismissed employees, or from financial structures or private investors. It is doubtful, however, that financial structures will invest money in the Russian economy. First of all, it is obvious that enterprises on the verge of production bankruptcy are not attractive at the investment level. Second, the state itself acts in the role of a competitor for the investor in the market for monetary resources (more than 300 percent of the annual rate, according to the GKO [state short-term bonds]).

So the question of the reality of funds to provide for bankruptcy and the subsequent sanation of Russian industry continues to be unresolved, but after all, if we analyze it from the standpoint of the criteria for insolvency cited in the government decree "On certain steps to implement legislation on the insolvency (bankruptcy) of enterprises," more than 80 percent of the enterprises will prove to be in the position of potential bankruptcies.

According to data from the Federal Administration on Insolvency Matters, with the average magnitude of the normally established coefficient for current liquidity equal to 2, it does not exceed 1.4. This fact alone suggests the impracticality of a standard indicator, its isolation from the financial condition of enterprises, and in addition, its conscious overstatement.

In their effort to understand the reason for this overstatement, the experts turned their attention to the fact that the right to financial support in sanation is acquired only by those enterprises which are subordinate to the policy of the Goskomimushchestvo [State Committee on the Administration of State Property], and the distribution of funds also goes through the Goskomimushchestvo, which acquires the levers for administration of the enterprises for a long time, even after privatization. In the authors' opinion, the powers of the Federal Administration on Insolvency (Bankruptcy) Matters under the Russian Goskomimushchestvo are so broad that they make it possible to speak about forming "a shadow cabinet of ministers" in its name. It is obvious that the FUDN will not be able to actually realize these powers, though they make it possible:

—to create a standard basis providing for the opportunity to privatize practically any state enterprise to circumvent the "State Program for Privatizing State and Municipal enterprises in the Russian Federation after 1 July 1994" which was submitted for consideration by the Federal Assembly, as well as to provide for the legally unrestricted replacement of managers of state and state-private enterprises who are objectionable to the Goskomimushchestvo; and

—to really be in charge of the fate of enterprises which are potentially the most valuable by transferring controlling blocks of their stock to those "new owners" who accept the conditions for investment competitions proposed by the FUDN. A number of such enterprises (the Tula Arms Plant, the Rostov Optical-Machinery Plant, and the "Korund" AO [Joint-Stock Company]) have turned up in the lists of candidates for "reprivatization."

In this case, a casualty of the bankruptcy procedure will not turn out to be the managers or even the employees of an enterprise—the law protects their rights. The principal loss will be borne by the citizens of Russia, who trustingly exchanged their vouchers for shares in privatized enterprises and investment funds. Evidently the Goskomimushchestvo has forgotten about them.

For this reason, as paradoxical as it may seem, we have to speak today not so much about speeding up extension of the insolvency procedure as about restoring the economic situation in which this procedure is generally useful and expedient and which is not fraught with sociopolitical shocks.

This being the case, the main orientation of activity to overcome the nonpayments crisis should be measures of a macroeconomic nature aimed at expanding the capacities of the domestic market, at creating a practically new marketing system which makes it possible for industrial enterprises, not middleman-trading organizations, to receive most of the income from the sale of products, and at creating conditions to hold back the increase in production costs.

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We also need a combined economic and legal mechanism based on the new Civil Code which prevents voluntarism and abuses in disposing of state property. In this connection, a question inevitably arises about improving the standard and legal basis of the procedure for formalizing insolvency. The experts suggest that amendments be made to the Law "On the insolvency (bankruptcy) of enterprises" which simplify the bankruptcy mechanism for enterprises and organizations with all forms of ownership, as well as reworking of the government decree "On certain steps to implement legislation on the insolvency (bankruptcy) of enterprises," since its implementation will not lead to improvement of the economic situation and may result only in aggravation of the sociopolitical situation. It is proposed that stipulation be made that the action of the decree be extended only to state enterprises and enterprises in which the state owns a controlling block of stock; that is, where its share is more than 50 percent. Otherwise, there will be infringement of the stockholders' legal interests.

Returning to the criteria being applied to determine enterprises' inability to pay, the authors believe there should be a different mechanism to develop them, and primarily to reflect the result of legal and economic expertise, which should be adjusted each year, taking into account actual conditions in the country to ensure that the number of enterprises falling in the bankruptcy category does not exceed 10 to 20 percent of their total number.

In short, the indicators of insolvency should make it possible to select those enterprises which must be helped first, and this should relate to real assistance for which the state or financial structures should have funds. Otherwise, selecting enterprises needing assistance (sanation) out of the large number that received notification of insolvency will become random in many respects, or even worse, it opens the possibility that the interests of individual financial structures will be served by implementing bankruptcy in their favor.

The hope that the bankruptcy of a business and bankruptcy of a production facility can be separated is just an illusion, the experts believe. Real bankruptcy, which is understood not only as replacement of a manager or additional infusions but as the bankruptcy of production facilities that are not viable and which should be replaced by modern technologies to ensure increased efficiency, must make economic sense. This is only possible, however, in the event that healthy segments of the country's economy are in a position to absorb the amount of resources released when inviable—and hence insolvent—firms are abolished.

Otherwise, bankruptcy leads to incessant pressure on the country's production and economic potential and the creation of resources that are unclaimed. In other words, an increase in the scale of bankruptcy is possible and useful, as paradoxical as it may seem, only in the event that overall economic conditions are improved.

*Survey of State Securities Market

954E0782A Moscow BIZNES I BANKI in Russian No 10, Mar 95 pp 1-2

[Article by O.V. Strelkovskaya, chief of the securities department of the Moskoviya commercial bank, and V.Ye. Ulupov, chairman of the board of the Moskoviya commercial bank, under the rubric "Stock Market": "The State Securities Market: Problems and Prospects"]

[FBIS Translated Text] According to Ministry of Finance data, as of 1 January 1995 Russia's internal state debt was 88.4 trillion rubles [R]. The plan is to cover the deficit mainly through the issuance of state securities, the unquestionable leader among which last year were GKO's [short-term state bonds]. Over the period since the GKO market began to operate, and especially last year, its volume has increased dramatically. For instance, the volume of primary placement is currently R1-1.5 trillion, and daily trading in the secondary market is in excess of R100 billion. Beginning in the spring of 1994, the yield from GKO operations considerably exceeded the yield from other financial instruments. Keeping in mind the increasing riskiness of loan operations, including interbank credits, investment in GKO's is becoming increasingly attractive. Currently, most large commercial banks in Moscow have already restructured their investments. And while at the beginning of the year the value of GKO's issued was slightly more than R100 billion a month, in July-August more than R3.5 trillion in bonds were issued.

Intensive growth of the market also created a score of serious problems, however. As the volume of issuance grew, the cost to the Ministry of Finance of servicing the GKO debt increased considerably. The average price of borrowing last year was 140 percent. Add to this the fact that three-month issues as a rule cost even more. The situation with respect to the cost of attracting funds through GKO's became especially acute in the fall of last year. Among the causes were a sharp destabilization of the financial market as a whole, rising interest rates, and the increased rate of inflation. Beginning in October 1994 the interest rate of servicing the bonds debt not only reached the value of Central Bank's refinance loans (which happened for the first time in the history of the post-Soviet market, but also began to increasingly often exceed it. The Ministry of Finance cannot wait out the general worsening of the state of the monetary market by cutting the current volume of borrowing, since previous issues mature one after another. The problem is greatly exacerbated by the extremely short maturity period of the bond debt, which is now shorter than a year ago—less than 60 days, as compared to 78 days at the end of 1993. In January of this year the Ministry of Finance placed four more issues with annual yield of 193.7-238.33 percent (without taking into account tax benefits). The rate of growth of the money supply in this market is also a matter of concern, as is the fact that only 2 percent of the money attracted goes into the budget, while 75 percent is used to pay off previous issues. On top of this, the GKO's high yield keeps interest rates in the loan market from declining and hence pushes the point of stabilization further away. The issuer essentially is acting at the bidding of the dealers, who set the

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price of orders far too low. One can see the results of such a practice, in particular, in the example of an auction for placement of three-month bonds which was held on 1 February, where their nominal interest rate, which reached an annual 208.57 percent (not counting tax benefits), once again exceeded the refinancing rate.

A new, rather dynamic instrument in the state debt instruments market are treasury bills [KO's]. According to official data, as of 11 February 1995 the Ministry of Finance had issued debt instruments in the amount of R6.66 trillion. Treasury bills in their current form represent essentially not state borrowing but a form of deferred financing of budget expenditures with a very short term.

As to tax exemptions as a form of paying off KO's, this procedure is so far unclear because of the lack of a clearly defined procedure and actual precedents. It is unlikely that tax exemptions will become widespread—this would mean undercollection of budget revenue now, while the payoff formally may be stretched over the period from its beginning to the expiration date. The unquestionable advantage of KO's for the issuer is the much lower cost of servicing them as compared to GKO's. However, it is unlikely that the Ministry of Finance will be able to speed up KO placement at the current rate, which, because of the high rate of discount in the secondary market, results in considerable losses for the KO's first holders if they sell them early.

Also noteworthy is the absence of issuers' efforts to organize a secondary market for these obligations. There were attempts to organize trading in obligations at the RTSB [Russian Commodity and Raw Materials Exchange]; however, regular trading with a volume sufficient to form prices did not materialize because of the limited number of sellers.

In the absence of a clearly worded law on taxation, different banks interpret KO's differently. Some are withholding taxes the same way as when handling GKO's (no tax on their resale); others consider only the 40 percent Ministry of Finance interest rate tax-free; still others make tax withholdings in the usual manner, following the procedures for operations with securities.

The shortage of objective information on the going price of KO's provides an opportunity for speculative trading with large lots of these securities. In this case, profit may amount to 1 percent or more in one day. Such an approach is particularly effective in operations with KO's due very soon. It is quite possible that KO's will soon begin to exert more influence on the financial market of Russia as a whole, drawing off considerable monetary resources. However, final judgment will have to wait until March-April, when it becomes clear how the Ministry of Finance will fulfill its repayment obligations.

At the beginning of the new year the price of VVZ's [internal foreign currency bonds] obligations went into a tailspin. As a result, their yield is approaching the level registered at the beginning of their issuance, when few knew what these securities were. This drop has already exceeded the October mark (after the foreign currency crisis). While in October the price fell by almost 6-9 percentage points, now the decline already measures 6-12 points. Series 2 bonds show the highest yield—about 40 percent annually. An almost impossible situation has arisen whereby the interest on state securities—seemingly the safest assets in the financial market—exceeded the commercial bank rate on foreign currency credit. Apparently, the overly narrow market of VVZ bonds, supported mainly by foreign investors, reacted to the increased political and economic instability in Russia. An additional factor that drove down the price was the crisis in the market of developing countries' debt instruments.

After the statement by Minister of Economics Ye. Yasin that a payoff of Vneshekonombank's [Bank for Foreign Economic Activity] Eurobonds is set for 8 February, the price of these securities began to rise much faster. For instance, on 3 February alone the price of Series 3 bonds rose by two percentage points. The rising demand is fueled mainly by the interest of Russian investors. However, information that the USSR Vneshekonombank's DM500 million bond issue will be redeemed probably will perk foreign investors' interest in the internal foreign currency bonds as well.

The Ministry of Finance is counting on attracting the population's money not only in the ruble but also in the foreign currency market. For instance, the Ministry of Finance is issuing a gold certificate with a face value of 1 kg. For small denomination—about $1,000—regular bonds will be issued. As a result of these actions, the Ministry of Finance is counting on attracting R18 trillion of the population's money (in Ministry of Finance estimates, the population's current cash holdings amount to about R80-100 trillion).

Thus, state securities represent today the largest segment of the Russian stock market. However, its further growth may result in lower liquidity and, consequently, a crisis. On the other hand, considerable expansion of the state securities market will produce an outflow of a considerable part of the funds intended to finance industry.

*Federal Law Amending Earlier Law on Mineral Resources

954E0738A Moscow ROSSIYSKAYA GAZETA in Russian 15 Mar 95 pp 13-15

[Russian Federation Federal Law: "On Introducing Changes and Amendments to the Russian Federation Law, 'On Mineral Resources'", adopted by the State Duma on 8 February 1995. Signed by Russian Federation President B. Yeltsin in Moscow on 3 March 1995, No 27-F3]

[FBIS Translated Text]

Article 1. Changes and amendments shall be introduced into the Russian Federation Law, "On Mineral Resources," (VEDOMOSTI, Russian Federation Congress of People's Deputies and Russian Federation Supreme Soviet, 1992, No 16, p 834; No 29, p 1690; 1993, No 2, p 74), expressed in the following edition:

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"RUSSIAN FEDERATION LAW

'On Mineral Resources'

Mineral resources are a part of the earth's crust, located below the soil layer, and in its absence—below the earth's surface and the bottom of water reservoirs and water currents, extending to depths which are accessible for geological survey and development.

The present law regulates the relations arising in connection with the geological study, application and protection of mineral resources on the territory of the Russian Federation or its continental shelf, as well as in connection with the application of by-products of the mining and associated processing industries, peat, sapropel [organic mud] and other specific mineral resources, including subterranean waters, salt deposits and natural brine of salt lakes and sea inlets.

The present law contains the legal and economic principles for comprehensive rational application and protection of mineral resources and ensures protection of the interests of the state and the citizens of the Russian Federation, as well as the rights of mineral resource users.

Section I. GENERAL PRINCIPLES

Article 1. Russian Federation legislation on mineral resources

Russian Federation legislation on mineral resources is based on the Russian Federation Constitution and consists of the present law and other federal laws and normative legal statutes adopted in accordance with it, as well as laws and other normative legal statutes of subjects of the Russian Federation.

The present law is effective over the entire territory of the Russian Federation, and also regulates the relations of utilization of natural resources on the continental shelf of the Russian Federation in accordance with federal legislative statutes on the continental shelf and standards of international law.

Laws and other normative legal statutes of subjects of the Russian Federation may not contradict the present law.

In the case of contradiction between laws and other normative legal statutes of subjects of the Russian Federation with the principles of federal laws regulating relations of mineral resource application, the present law and other federal laws shall take precedence.

Relations associated with the use and protection of land, water, the vegetation and animal world, and the atmospheric air, and arising during the application of mineral resources, are regulated respectively by the Russian Federation legislation and the legislation of subjects of the Russian Federation.

Specific relations associated with geological survey and mining of individual types of mineral raw materials, as well as with the burial of radioactive waste and toxic substances, may be regulated by other federal laws with adherence to the principles and statutes established by the present law.

Relations of mineral resource application with foreign legal entities and individuals are regulated by the present law, other federal laws and other standard legal statutes of the Russian Federation.

Article 1-1. Legal regulation of relations of mineral resource application.

The delineation of objects of management and the powers and authorities between the organs of state power of the Russian Federation and the organs of state power of subjects of the Russian Federation in the sphere of state regulation of relations of mineral resource application is implemented by the Russian Federation Constitution, as well as by federative and other agreements on delineation of objects of management and powers and authorities which are concluded in accordance with it.

The statutes of the present law concerning delineation of objects of management and powers and authorities between organs of state power of the Russian Federation and organs of state power of subjects of the Russian Federation are effective on the territories of the indicated subjects until such time as an agreement is concluded on delineation of the objects of management and powers and authorities within the sphere of regulating relations of mineral resource application between the Russian Federation and the subjects of the Russian Federation.

Subjects of the Russian Federation may adopt their own laws and other standard legal statutes for purposes of regulating relations of mineral resource application within the limits of their powers and authorities.

Organs of local self government have the right to implement regulation of relations on mineral resource application within the limits of the powers and authorities granted to them by the effective legislation.

Article 1-2. Ownership of mineral resources

The mineral resources within the boundaries of the territory of the Russian Federation, including the underground space and the minerals, power and other resources contained in the underground depths, are state property. Questions of ownership, use and management of mineral resources are the joint competency of the Russian Federation and subjects of the Russian Federation.

Sections of mineral resources may not be the object of purchase, sale, gift, inheritance, investment, deposit or other form of alienation. The right to use mineral resources may be taken away or transferred from one person to another in that measure in which their turnover is permitted by federal laws.

The minerals and other resources extracted from the underground depths under conditions of licenses may be held in federal state ownership, ownership of subjects of the Russian federation, municipal, private or other forms of ownership.

Article 2. State mineral resources fund

The state mineral resources fund is comprised of the usable sections representing geometrical blocks of mineral

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resources and utilized sections of mineral resources within the limits of the territory of the Russian Federation and its continental shelf.

The ownership, use and management of the state mineral resources fund within the limits of the territory of the Russian Federation in the interests of the peoples residing on the appropriate territories, and all the peoples of the Russian Federation, are implemented jointly by the Russian Federation and the subjects of the Russian Federation.

Upon request of the federal agency for administering the state mineral resources fund, federal organs of executive power and organs of executive power of subjects of the Russian Federation, within the limits of their powers and authorities, approve state programs of geological survey of mineral resources, reproduction of the mineral-raw material base, and rational application of mineral resources, and, under the control of organs of representative power, resolve questions of natural resource application, protection of mineral resources and environmental protection.

Article 2-1. Sections of mineral resources of federal significance

For guaranteed provision of state needs of the Russian Federation for strategic and deficit types of mineral resources, whose availability influences the national security of the Russian Federation and ensures the principles of its sovereignty, as well as for fulfillment of obligations under international treaties of the Russian Federation, individual sections of the underground depths, including those containing mineral deposits, may be given the status of objects of federal significance on the basis of joint decisions by federal organs of state power and organs of state power of subjects of the Russian Federation.

Part of the deposits of federal significance, including mineral deposits which have been developed and prepared for mining, are included in the federal fund of reserve deposits.

The procedure for classifying sections of mineral resources as objects of federal significance, including the federal mineral deposit reserve fund and the conditions for its application, as well as the procedure of relegating them to federal property, are established by federal laws.

Article 3. Competency of organs of state power of the Russian Federation in the sphere of regulating relations of mineral resources application

The competency of organs of state power of the Russian Federation in the sphere of regulating relations of mineral resources application includes:

1) developing and revising the Russian Federation legislation on mineral resources;

2) defining and implementing federal policy of mineral resources application; defining the strategy of utilization, rates of reproduction, continued expansion and qualitative improvement of the mineral-raw material base by means of development and realization of federal programs;

3) establishing a general procedure for application of mineral resources and their protection, developing appropriate standards (norms, regulations), including the classification of reserves and predictive mineral resources;

4) establishing and managing a unified system of federal and territorial funds of geological information on mineral resources; management of information received through state means;

5) performing state expert evaluation of information on surveyed mineral reserves and other properties of the underground depths which define their value or danger;

6) compiling, in conjunction with subjects of the Russian Federation, the regional lists of minerals classified as being commonly distributed, as well as identifying sections of mineral resources of federal significance, regional significance and local significance;

7) compiling a state balance of mineral reserves; state accounting of sections of mineral resources used for extraction of minerals and construction of underground structures not associated with extraction of minerals; administering the state cadaster of deposits and manifestations of minerals; state registration of work on geological survey of mineral resources;

8) managing the mineral resources located on the continental shelf of the Russian Federation;

9) setting limitations on application of mineral resources on individual sections for provision of national security and environmental protection;

10) managing the state mineral resources fund in conjunction with subjects of the Russian Federation, with the exception of sections held in the exclusive management of the Russian Federation;

11) defining, in conjunction with subjects of the Russian Federation, the conditions and procedures for collecting payment for the use of mineral resources, including the setting of their maximal levels for groups of minerals, establishing the forms and amounts of payment for using sections of mineral resources of federal significance, as well as ratification of agreements on conditions of dividing up the product;

12) coordinating scientific-research and experimental-design work associated with the application of mineral resources;

13) protecting the rights of users of mineral resources and the interests of citizens of the Russian Federation;

14) resolving disputes on questions of mineral resources application between subjects of the Russian Federation;

15) concluding international treaties of the Russian Federation on geological survey, application and protection of mineral resources;

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16) implementing state control over the geological survey, rational application and protection of mineral resources, and establishing the procedure of its implementation.

The realization of general federal policy on mineral resources application in the Russian Federation is placed upon the federal organ administering the state mineral resources fund and its territorial subdivisions, in cooperation with the subjects of the Russian Federation.

The Russian Federation may hand over individual powers and authorities on regulating relations of mineral resources application to subjects of the Russian Federation.

Article 4. Competency of organs of state power of subjects of the Russian Federation in the sphere of regulating relations of mineral resources application

The competency of the organs of state power of subjects of the Russian Federation in the sphere of regulating relations of mineral resources application on their territories includes:

1) adopting and revising laws and other normative legal statutes of the subjects of the Russian Federation on mineral resources;

2) participating in the development and realization of state programs of geological survey of mineral resources; development and assimilation of the mineral-raw material base of the Russian Federation;

3) developing and implementing territorial programs for development and application of the mineral-raw material base;

4) establishing and managing territorial funds of geological information; managing information obtained through budget funds of the appropriate subjects of the Russian Federation and the appropriate local budgets;

5) participating in a state expert evaluation of information on surveyed reserves of minerals and other properties of the underground depths, which define their value or danger;

6) compiling territorial balances of reserves and cadasters of deposits and manifestations of minerals, and accounting of sections of mineral resources used for construction of underground structures not associated with extraction of minerals;

7) managing, in conjunction with the Russian Federation, the unified state mineral resources fund on their territories and defining, in conjunction with the Russian Federation, the sections of mineral resources of federal, regional and local significance;

8) defining the forms and establishing the amounts of payment for the use of sections of mineral resources of regional and local significance within the established limits;

9) establishing the order of using mineral resources for purposes of developing deposits of commonly distributed minerals and sections of mineral resources of local significance, as well as building underground structures of local significance;

10) protecting the interests of the minor peoples, the rights of users of the mineral resources and the interests of citizens; resolving disputes on questions of mineral resources application;

11) licensing types of activity associated with the use of sections of mineral resources of regional and local significance;

12) concluding agreements on conditions of dividing up the product with subjects of economic activity during the application of sections of mineral resources of regional and local significance;

13) defining the conditions and procedure for use of mineral deposits;

14) implementing state control over geological survey work, protection and rational application of mineral resources in accordance with the established procedure;

15) regulating other questions in the sphere of application and protection of mineral resources, with the exception of those relegated to the competency of the Russian Federation.

Article 5. Competency of organs of local self-government of rayons and cities in the sphere of regulating relations of mineral resources application

The competency of organs of local self-government of rayons and cities in the sphere of regulating relations of mineral resources application includes:

1) participating in the resolution of questions associated with adherence to the social-economic and ecological interests of the population of the territory in granting use of mineral resources and in allocation of land sections;

2) developing the mineral-raw material base for enterprises of local industry;

3) granting, in accordance with the established procedure, permits for development of deposits of commonly distributed minerals, as well as for construction of underground structures of local significance;

4) halting work associated with the use of mineral resources on land areas in case of violation of the statutes of Article 18 of the present law;

5) implementing control over the use and protection of mineral resources during extraction of commonly distributed minerals, as well as during construction of underground structures not associated with the extraction of minerals;

6) introducing limitations on the application of sections of mineral resources on territories of population centers, suburban zones, objects of industry, transport and communications in cases if such use may pose a threat to human life and health, or inflict detriment upon economic facilities or the environment.

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Section II. USE OF MINERAL RESOURCES

Article 6. Types of mineral resources application

Mineral resources are granted for use for the following:

1) regional geological survey, including regional geological-geophysical work, geological mapping, engineering-geological survey, scientific-research paleontological and other work directed at general geological study of the mineral resources; geological work on predicting earthquakes and studying volcanic activity, establishing and administering monitoring of the natural environment, and implementing control over the regimen of underground waters, as well as other work performed without significant disruption of the integrity of the mineral resources;

2) geological study, including survey and assay of mineral deposits;

3) exploration and mining of minerals, including the use of by-products of mining and associated processing industries;

4) construction and operation of underground structures not associated with mining of minerals;

5) formation of specially protected geological objects having scientific-cultural, aesthetic, sanitary-health and other significance (scientific and training grounds, geological preserves, sanctuaries, natural monuments, caves and other underground cavities);

6) gathering of mineralogical, paleontological and other geological collection materials.

Mineral resources may be granted for use simultaneously for geological study (survey, exploration) and for mining. In this case, mining may be performed in the process of the geological survey work, as well as immediately following its completion.

Article 7. Sections of mineral resources granted for use

In accordance with the license for extraction of minerals, construction and operation of underground structures not associated with mining, and formation of specially protected geological objects, a section of mineral resources is granted to the user in the form of a mining allotment—a geometrical block of mineral resources.

In defining the boundaries of the mining allotment, consideration is given to the spatial contours of the mineral deposit, the position of the section of construction and operation of the underground structures, the boundary of safe performance of mining and explosive work, the zone of protection against the harmful effect of mining developments, the zone of rock movement, the contours of the protective pillars under the natural objects, buildings and structures, the extent of the edges of quarries and open-pit mines, and other factors influencing the state of the mineral resources and the earth's surface in connection with the process of geological study and use of mineral resources.

Preliminary boundaries of the mining allotment are established at the time the license for use of the mineral resources is granted. After the the technical project is developed, the positive conclusion of the state expert evaluation committee is received, and the said project is coordinated with the organs of state mining oversight and state environmental protection agencies, the documents defining the clearly specified boundaries of the mining allotment (with characteristic sections and log of corner point coordinates) are included in the license as an integral part.

The user of the mineral resources who has received the mining allotment has the exclusive right to implement use of the mineral resources within its boundaries in accordance with the granted license. Any activity associated with the use of the mineral resources within the boundaries of the mining allotment may be performed only with the permission of the user of the mineral resources to whom it was granted.

A section of mineral resources granted in accordance with a license for geological study without significant disruption of the integrity of the mineral resources (without performance of heavy mining operations and drilling of wells for extraction of minerals or construction of underground structures for purposes not associated with mining), at the decision of the federal agency administering the state mineral resources fund or its territorial subdivision, is granted the status of a geological allotment. Several users of mineral resources may simultaneously perform work within the boundaries of a geological allotment. Their interrelations are determined when the mineral resources are granted for use.

Article 8. Limiting the use of mineral resources

The use of individual sections of mineral resources may be limited or prohibited for purposes of ensuring national security and environmental protection.

The use of mineral resources on territories of population centers, suburban zones, objects of industry, transport and communications may be partially or fully prohibited in cases if this use may pose a threat to human life and health or inflict damage upon economic objects or upon the environment.

The use of mineral resources on specially protected territories is performed in accordance with the status of these territories.

Article 9. Users of mineral resources

The users of mineral resources may be subjects of entrepreneurial activity, regardless of form of ownership, including legal entities and citizens of other states, if the legislation of the Russian Federation and the legislation of subjects of the Russian Federation grants them the right to engage in the appropriate type of activity during use of mineral resources.

The rights and responsibilities of a user of mineral resources arise from the moment of receipt of the license for use of mineral resources.

Users of mineral resources for extraction of radioactive raw material and burial of radioactive waste and toxic substances may be only state enterprises.

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Article 10. Terms of use of mineral resources

Mineral resources are granted for use for a definite term, or without limitation of term. Mineral resources are granted for use for a definite term:

—for geological study—for a period of up to 5 years;

—for mining of minerals and purposes not associated with mining—for a period of up to 20 years;

—with combination of the indicated types of use—for a period of up to 25 years.

The terms of use of mineral resources for extraction of minerals are determined based on the technical-economic substantiation of their development ensuring rational application and protection of the mineral resources.

Sections of mineral resources may be granted without limitation of term for construction and operation of underground structures not associated with mining, for formation of specially protected objects, and for other purposes.

The terms for use of mineral resources are computed from the day of granting the right of use. They may be extended at the initiative of the user of the mineral resources for the terms indicated in part one of the present article, provided the conditions specified in the license are fulfilled.

Article 10-1. Grounds for acquiring right to use mineral resources

The right to use mineral resources may be acquired by a user:

1) on the basis of a joint decision of the federal organ of administration of the state mineral resources fund or its territorial subdivision and the organ of executive power of a subject of the Russian Federation, according to the results of a competition or auction;

2) on the basis of a decree of the Russian Federation Government in cooperation with the organs of executive power of subjects of the Russian Federation, for purposes of burying radioactive waste and toxic substances in deep-seated strata, ensuring their localization;

3) on the basis of a decree of the Russian Federation Government based on the results of a competition or auction for use of mineral resources of the continental shelf of the Russian Federation;

4) in the order of re-formulation of effective licenses on the grounds specified by the present law.

5) in the order established by the organs of representative power of subjects of the Russian Federation for use of sections of mineral resources containing deposits of commonly distributed minerals or having local significance, as well as sections of mineral resources of local significance used for purposes not associated with the extraction of minerals;

6) on the basis of a decision by a federal agency administering the state mineral resources fund or its territorial subdivision, coordinated with the organs of executive power of subjects of the Russian Federation, for purposes of geological study of the mineral resources.

The rights to use mineral resources in a section of underground depths on the territory of free economic zones of the Russian Federation may be acquired by a user on the grounds and conditions specified by the present law.

Article 11. License for use of mineral resources

Granting use of mineral resources is formulated by a special state permit in the form of a license, which includes a blank of standard form bearing the State Seal of the Russian Federation, as well as textual, graphic and other appendices, which are an inalienable component part of the license and define the basic conditions of use of the mineral resources.

The license is a document which certifies the right of its holder to use a section of mineral resources within specified boundaries and in accordance with the indicated purpose for the duration of the established period, provided he adheres to previously stipulated conditions. An agreement may be concluded between the authorized state agencies and the license holder, establishing the specific conditions associated with the use of the mineral resources.

A license certifies the right to perform work on geological study of mineral resources, development of mineral deposits, utilization of by-products of mining and associated processing industries, use of mineral resources for purposes not associated with mining, formation of specially protected geological objects, and gathering of mineralogical, paleontological and other geological collection materials.

Licenses may be granted for several types of mineral resources application.

Granting licenses for the use of mineral resources is performed in the presence of preliminary agreement of the agency managing the land resources or the owner of the land to allocate the land section for purposes of mineral resources application. Allocation of a land section in its final boundaries and formulation of land rights of the mineral resources user is performed in accordance with the procedure specified by the land legislation, after the project of work on mineral resources application has been approved.

Article 12. Content of license for use of mineral resources

A license and its inalienable component parts must contain:

1) information about the user of the mineral resources who has received the license and the agencies granting the license, as well as the grounds for granting the license;

2) information on the purpose of the work associated with the use of the mineral resources;

3) indication of the spatial boundaries of the section of land resources being granted for use;

4) indication of the boundaries of the land allotment or water basin isolated for performing work associated with use of the mineral resources;

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5) term of effectiveness of the license and time of the start of work (preparation of technical project, reaching project capacity, submitting geological information for state expert evaluation);

6) conditions associated with payments collected during use of the mineral resources, land sections or water basins;

7) coordinated level of extraction of mineral raw materials, right of ownership to extracted mineral raw materials, as well as agreement regarding its share distribution;

8) agreement on the right of ownership to geological information obtained in the process of using the mineral resources;

9) conditions for fulfillment of requirements established by legislation and standards (norms, regulations) regarding protection of mineral resources and of the environment and safe performance of operations;

10) procedure and terms of preparing projects for liquidation or conservation of mining excavations and reclamation of land.

A license for use of mineral resources secures the listed conditions and form of contractual relations of the mineral rights user, including the agreement on conditions of division of product, the contract on granting of services (with and without risk), and may also be supplemented by other conditions, provided they do not contradict the present law.

Conditions of mineral resources application specified in the license remain in force for the duration of the terms stipulated in the license or within the course of the entire term of its effectiveness. Amendment of these conditions is permitted only with the consent of the mineral resources user and the agencies granting the license, or in cases specified by the legislation.

Article 13. Order of granting licenses for use of mineral resources

Granting licenses for use of mineral resources is performed by means of holding competitions and auctions, as well as on other grounds specified in Article 10-1 of the present law.

Determination of the procedure and conditions for holding a competition or auction on each object or group of objects is performed by the agencies granting the license.

The basic criteria in holding a competition or auction are: The scientific-technical level of the programs for geological study and use of the mineral resources; the level (completeness) of extraction of minerals; the contribution to the socio-economic development of the territory; the terms of realization of the appropriate programs, and the effectiveness of environmental protection measures.

Information on upcoming competitions and auctions, on their results, as well as on the granting of licenses for use of mineral resources on other grounds, must be publicized in the mass media.

Article 14. Refusal to accept an application for participation in a competition or auction

Refusal to accept an application for participation in a competition or auction may ensue in the following cases:

1) The application for granting of the license is filed in violation of the established requirements, including if its content does not correspond to the announced conditions of the competition or auction;

2) The applicant intentionally provides false information about himself;

3) The application does not submit or cannot submit proof of the fact that he possesses or will possess the qualified specialists or the necessary financial and technical means for effective and safe performance of the work;

4) If granting of the license to the given applicant would violate anti-monopoly requirements.

Article 15. State system of licensing

The state system of licensing is a unified procedure for granting licenses, which includes informational, scientific-analytical, economic and legal preparation of materials and their formulation.

The task of the state system of licensing is to provide for:

—The practical realization of state programs for development of the mining industry and the mineral-raw material base;

—Social, economic, ecological and other interests of the population living on a given territory, and all the citizens of the Russian Federation;

—Equal opportunities for all legal entities and citizens in obtaining licenses;

—Development of market relations and implementation of anti-monopoly policy in the sphere of mineral resources application;

—Necessary guarantees to license holders (including foreign) and protection of their right to use the mineral resources.

Article 16. Organizational provision of the state system of licensing

Organizational provision of the state system of licensing is placed upon the federal organ of administration of the state mineral resources fund and its territorial subdivisions.

The federal organ of administration of the state mineral resources fund and its territorial subdivisions perform preparation of the work associated with holding competitions (auctions) and granting of licenses; coordinate the conditions of licensing with the state organs of administration of industry, the land, water and forest resources, the state environmental protection agencies, the organs of state mining oversight, and in the portion concerning payment— with the state organs of economic management.

In granting a license on a non-competitive basis, all forms of coordination are performed in conjunction with the potential user of the mineral resources.

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The license is granted jointly by the organ of executive power of a subject of the Russian Federation and the federal organ of administration of the state mineral resources fund and its territorial subdivision, and in the cases specified by points 2, 3 and 6 of Article 10-1 of the present law—by the federal organ of administration of the state mineral resources fund or its territorial subdivision.

Formulation, registration and issuance of the license for use of mineral resources are performed by the federal organ of administration of the state mineral resources fund or its territorial subdivision.

The statute on the procedure of issuing licenses for the use of mineral resources is ratified by the Federal Assembly of the Russian Federation.

Article 17. Anti-monopoly requirements in use of mineral resources

Actions by organs of state power, as well as by any economic management subjects (users of mineral resources) are prohibited or deemed unlawful in accordance with the established procedure if they are aimed at:

—Limiting access, contrary to the conditions of a given competition or auction, to participation by legal entities and citizens wishing to acquire the right of use of the mineral resources in accordance with the present law;

—Refusal to grant licenses to winners in a competition or at an auction;

—Replacement of competitions and auctions with direct negotiations;

—Discrimination against users of mineral resources who establish structures which compete with the economic subjects occupying a dominant position in the use of the mineral resources;

—Discrimination against users of mineral resources in granting access to objects of transport and the infrastructure.

The federal organ of administration of the state mineral resources fund, in coordination with the subjects of the Russian Federation, has the right to establish marginal limits on sections of mineral resources, on the number of sections, and on the maximal reserves of minerals granted for use.

Article 17-1. Transfer of the right to use mineral resources and reformulation of effective license

The right to use mineral resources is transferable to another subject of entrepreneurial activity (legal entity) in the following cases:

1) upon change of the organizational-legal form of the enterprise utilizing the mineral resources;

2) upon reorganization of the enterprise utilizing the mineral resources by means of annexation of another enterprise or merging with another enterprise, if the former user of the mineral resources holds the right of ownership to no less than half of the statutory fund of the newly created enterprise;

3) upon reorganization of the enterprise utilizing the mineral resources by means of division or separation of another enterprise from it, when the newly created enterprise continues the activity in accordance with the license at the site of the former user;

Upon transfer of the right to use mineral resources, the license for the right to use the mineral resources is subject to reformulation. In this case, the content of the license is not subject to review.

Reformulation of the license is mandatory also if there is a change in the name of the enterprise utilizing the mineral resources.

A license is reformulated at the request of the user of the mineral resources by the agency which issued the license.

The procedure for reformulating the license is determined in accordance with the requirements of the present law for formulation and registration of a license for use of mineral resources at the time of its issuance.

Refusal to reformulate a license may be appealed by the user of the mineral resources in judicial order.

The right of mineral resources application acquired by the user of the mineral resources may not be transferred by him to third parties, including in the order of ceding rights as specified by the civil legislation, except for the cases specified by federal laws.

Article 18. Granting mineral resources for development of deposits of commonly distributed minerals

The procedure of granting mineral resources for development of deposits of commonly distributed minerals, the procedure of use of mineral resources by legal entities and citizens within the boundaries of the land sections granted to them for the purpose of mining commonly distributed minerals, as well as for purposes not associated with extraction of minerals, are established by the laws and other normative legal statutes of subjects of the Russian Federation.

The underground depths for mining commonly distributed minerals for the purpose of production of building materials may not be granted if there is a possibility of utilizing the by-products of mining and other types of production which are alternative sources for this raw material.

Article 19. Mining of commonly distributed minerals by owners and proprietors of land sections

Owners and proprietors of land sections have the right, at their discretion, to perform mining of commonly distributed minerals which are not held on the state balance, within the limits of their property and without the application of explosive operations; as well as the construction of underground structures for their own needs to a depth of up to 5 meters, and likewise also the equipment and operation of household wells and drill holes to the first water-bearing stratum, provided it is not a source of centralized water supply, in accordance with the procedure established by the appropriate organs of executive power of subjects of the Russian Federation.

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Article 20. Grounds for termination of the right to use mineral resources

The right to use mineral resources is terminated:

1) upon expiration of the term of effectiveness specified in the license;

2) upon the license holder's rejection of the right to use the mineral resources;

3) if a certain condition arises (if it is stipulated in the license), with whose onset the right of use of the mineral resources is terminated;

4) in case of reformulation of the license in violation of the conditions specified in point 2, part one, Article 17-1 of the present law.

The right to use mineral resources may be terminated prior to its expiration, interrupted or limited by the organs granting the license in the following cases:

1) emergence of direct threat to the life or health of persons working or living in the zone of influence of the operations associated with use of the mineral resources;

2) violation of significant conditions of the license by the user of the mineral resources;

3) systematic violation by the user of the mineral resources of the established rules of use of the mineral resources;

4) occurrence of an emergency situation (natural disasters, military actions and others);

5) if the user of the mineral resources has not undertaken the use of the mineral resources in the specified volumes within the time specified in the license;

6) liquidation of the enterprise or other subject of economic activity to whom the mineral resources were granted for use;

7) at the initiative of the license holder.

If the user of the mineral resources disagrees with the decision on termination, interruption or limitation of the right to use the mineral resources, he may appeal it in administrative or judicial order.

Article 21. Procedure for early termination of the right to use mineral resources

In the case specified by point 2, part one, Article 20 of the present law, rejection of the right to use mineral resources may be announced by the license holder through written notification of the organs granting the license, no later than 6 months prior to the announced time.

The holder of the license for use of mineral resources must fulfill all the obligations specified in the license in case of early rejection of rights prior to the established time for termination of the right of use of the mineral resources. If the license holder does not fulfill the specified obligations, the organs granting the license have the right to exact, in judicial order, the sum of loss incurred due to their non-fulfillment.

In the cases specified by points 1 and 4, part two, Article 20 of the present law, use of mineral resources is terminated immediately after adoption of the decision to this effect by the competent organ, with written notification of the user of the mineral resources.

In the cases specified by points 2, 3 and 5, part two, Article 20 of the present law, the decision on termination of the right to use mineral resources may be adopted upon expiration of 3 months from the day of receipt of written notification by the user of the mineral resources regarding violations which he has permitted, if the user has not corrected these violations within the specified period of time.

In case of early termination of the right to use mineral resources, the liquidation or conservation of the enterprise is performed in accordance with the procedure provided in Article 26 of the present law. Expenditures for conservation and liquidation of the enterprise are borne by the user of the mineral resources, if the use of the mineral resources is terminated for reasons presented in points 1 (if it is through the fault of the enterprise), 2 and 3, part two, Article 20 of the present law, or at the initiative of the user of the mineral resources.

Expenditures for conservation and liquidation of an enterprise utilizing the mineral resources are borne by the state if the use of the mineral resources is terminated for reasons indicated in point 1 (in the absence of fault of the enterprise) and point 4, part two, Article 20 of the present law.

If the circumstances or conditions necessitating the interruption or limitation of the right of use of mineral resources are eliminated, the right may be restored in full volume. The time for which it was interrupted, in the absence of fault of the user of the mineral resources, is not included in the overall term of effectiveness of the license.

Article 22. Basic rights and responsibilities of a user of mineral resources

A user of mineral resources has the right:

1) To use the section of mineral resources granted to him for any form of entrepreneurial or other activity which corresponds to the purpose specified in the license;

2) To independently select the forms of this activity, provided they do not contradict the effective legislation;

3) To use the results of his activity, including the extracted mineral raw material, in accordance with the license and the effective legislation;

4) To use the by-products of his mining and associated processing production, unless otherwise specified in the license;

5) To limit the building on areas of mineral deposits within the boundaries of the mining allotment granted to him;

6) To perform, without additional permission, geological survey of the mineral resources through his own funds within the limits of the mining allotment granted to him in accordance with the license;

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7) To appeal to the organs granting the license regarding the review of conditions of the license if circumstances should arise which significantly differ from those under which the license was granted.

The user of mineral resources must ensure the following:

1) Adherence, in accordance with the established procedure, to the requirements of legislation, as well as standards (norms, regulations) on technology of performing work associated with the use of the mineral resources, and preliminary processing of the mineral raw material;

2) Adherence to requirements of technical projects, plans and schemes for development of mining operations; Intolerance of above-norm losses, depletion and selective mining of minerals;

3) Management of geological, surveying and other documentation in the process of all forms of use of mineral resources, and its safekeeping;

4) Provision of geological information to the federal and appropriate territorial geological information funds;

5) Provision of reliable data on surveyed and extracted mineral reserves, and those remaining in the underground depths, as well as the components contained in them, and data on the use of the mineral resources for purposes not associated with mining, to the federal and appropriate territorial funds of geological information and to the state statistical organs;

6) Safe performance of work associated with use of the mineral resources;

7) Adherence to standards (norms, regulations) which have been ratified in accordance with the established procedure and which regulate the conditions of protection of the mineral resources, the atmospheric air, the land, forests, water, as well as buildings and structures, against the harmful effect of work associated with the use of the mineral resources;

8) Bringing sections of land and other natural objects disrupted during the use of mineral resources to a condition suitable for their continued application;

9) Safekeeping of exploratory mining excavations and drilled wells which may be used in development of deposits and (or) for other economic purposes; liquidation in accordance with the established procedure of mining excavations and drilled wells which are not subject to application;

10) Fulfillment of conditions specified by the license, timely and correct payments for the use of the mineral resources.

The users of mineral resources or other legal entities and individuals employed by them for use of the mineral resources are subject to the requirements on presence of special qualifications and experience, confirmed by state license (certificate, diploma) for performance of the appropriate type of activity: Geological survey, survey, exploration, various methods of mining, construction and operation of underground structures, and other forms of mineral resources application.

Section III. RATIONAL APPLICATION AND PROTECTION OF MINERAL RESOURCES

Article 23. Basic requirements for rational application and protection of mineral resources

The basic requirements for rational application and protection of mineral resources are:

1) Adherence to procedure of granting mineral resources for use in accordance with the established legislation and inadmissability of unauthorized use of mineral resources;

2) Provision of completeness of geological survey, rational comprehensive application and protection of mineral resources;

3) Performance of preliminary geological study of the mineral resources ensuring a reliable appraisal of the mineral reserves or properties of the section of mineral resources granted for use for purposes not associated with mining;

4) Performance of a state expert appraisal and state accounting of mineral reserves, as well as of sections of mineral resources used for purposes not associated with mining;

5) Provision for the most complete extraction of reserves of primary and secondary deposits of minerals and accompanying components;

6) Reliable accounting of primary and secondary deposits of minerals and accompanying elements which have been extracted and those which have been left in the underground depths during development of the mineral deposits;

7) Protection of mineral deposits against flooding, waterlogging, fires and other factors which would reduce the quality of the minerals and the industrial value of the deposits or complicate their development;

8) Prevention of contamination of the mineral resources during performance of work associated with the use of mineral resources, especially with the underground storage of oil, gas or other substances and materials, burial of harmful substances and industrial waste, and dumping of sewage waters;

9) Adherence to the established order of conservation and liquidation of enterprises for extraction of minerals and underground structures not associated with mining;

10) Prevention of unauthorized building on areas of mineral deposits and adherence to the established order of utilizing these areas for other purposes;

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11) Prevention of accumulation of industrial and household waste on areas of water collection and in places of deposit of underground waters used for drinking or industrial water supply.

In the case of violation of requirements of the present article, the right to use the mineral resources may be limited, interrupted or terminated by specially authorized state agencies, in accordance with the legislation.

Article 23.1. Geological-ecological appraisal of mineral deposits

To determine the industrial value of mineral deposits, the safest and most effective methods of their development during geological survey of the mineral resources and during formulation of the mineral reserves on the state balance, a geological-economic appraisal of the deposits is performed on the basis of the criteria and requirements set forth by the federal organ of administration of the state mineral resources fund.

Article 23-2. Procedure for development of mineral deposits and use of mineral resources for purposes not associated with mining

Development of mineral deposits and use of mineral resources for purposes not associated with mining are performed in accordance with the approved technical projects.

Article 23-3. Preliminary processing of mineral raw materials by users of mineral resources

Users of mineral resources performing preliminary processing of the mineral raw materials obtained by them from the underground depths must ensure:

1) Strict adherence to technological schemes of processing the mineral raw material, ensuring the rational and comprehensive extraction of the useful components contained in it; Accounting and control of the distribution of useful components at various stages of processing and the degree of their extraction from the mineral raw material;

2) Continued study of the technological properties and make-up of the mineral raw material; performance of experimental technological testing for the purpose of improving the technologies of processing the mineral raw material;

3) The fullest possible application of products and by-products of processing (sludge, dust, drainage waters and others); Storage, accounting and preservation of products and by-products of production which are temporarily not being used and which contain useful components.

Article 24. Basic requirements for safe performance of work associated with the use of mineral resources

Construction and operation of enterprises for mining, underground structures of various application, and performance of geological survey of mineral resources are permitted only with provision for the safety of the life and health of workers of these enterprises and the population in the zone of effect of the operations associated with the use of the mineral resources.

The organs of state power and the users of the mineral resources must ensure fulfillment of the standards (norms, regulations) on safe performance of work associated with the application of the mineral resources.

The agencies of state mining oversight, within the limits of their compency, provide state normative regulation of questions of safety of work associated with the application of mineral resources, and also perform control functions.

Direct responsibility for provision of safe working conditions associated with the application of mineral resources is borne by the managers of the enterprises, regardless of whether these enterprises are conducting work in accordance with the licenses granted to them or whether they are contracted to perform such work.

Basic requirements for ensuring the safe performance of work associated with the application of mineral resources are:

1) Granting access to work only to persons who have special training and qualifications, and to the management of mining operations—persons who have the appropriate special education;

2) Provision of persons engaged in mining and drilling operations with special clothing and means of individual and collective protection;

3) Application of machines, equipment and materials which correspond to the requirements of safety regulations and health standards;

4) Proper use of explosive substances and explosive means, their proper accounting, storage and expenditure;

5) Performance of a complex of geological survey and other observations sufficient for provision of the normal technological cycle of work and prediction of dangerous situations; Timely identification and plotting of danger zones on plans of mining operations;

6) Systematic control over the state of the atmosphere in the mine, its content of oxygen, harmful and explosive gases and dust;

7) Prohibition of mining operations if the air temperature, as well as the content of oxygen, harmful or explosive gases and dust in the mine atmosphere of operating mines do not correspond to the requirements of the safety standards and regulations and the health standards and regulations;

8) Implementation of special measures for prediction and prevention of sudden emissions of gasses, breakthroughs of water, minerals and soils, as well as mine shocks;

9) Management of the deformational processes of the rock mass, ensuring the safe presence of persons in the mine excavations;

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10) Development and implementation of measures ensuring the protection of workers of enterprises performing operations associated with the use of mineral resources, as well as the population in the zoe of influence of the said operations, against the harmful effect of this work in its normal regimen and in case of occurrence of emergency situations.

All work associated with increased danger in the application of mineral resources is performed on the basis of licenses for the appropriate type of activity.

Users of mineral resources who perform underground mining operations must be served by professional mine-rescue services, and those performing drilling operations in exploration and development of oil and gas deposits must employ professional services for prevention and liquidation of open oil and gas gushers. These services are to be provided on the basis of contracts concluded by the users of the mineral resources with the providers of such services.

Managers of enterprises performing operations associated with the use of mineral resources and other authorized persons, in case of emergence of direct threat to the life and health of workers of these enterprises, must immediately stop work and provide for transport of the people to a safe place.

In case of emergence of direct threat to the life and health of the population in the zone of influence of work associated with the use of mineral resources, the managers of the appropriate enterprises must immediately inform the appropriate organs of state power and organs of local self-government of this fact.

Article 25. Conditions for building on areas of mineral deposits

Planning and construction of population centers, industrial complexes and other economic facilities is permitted only after receipt of a conclusion from the federal organ of administration of the state mineral resources fund or its territorial subdivision regarding the absence of minerals in the underground depths beneath the area of proposed building.

Building on areas of mineral deposits, as well as location of underground communications in places of their deposit, is allowed with the permission of the federal organ of administration of the state minral resources fund or its territorial subdivisions and the organs of state mining oversight, only under the condition of provision for the possibility of extracting the minerals or proving the economic expediency of the construction.

Unauthorized building on areas of mineral deposits is terminated without compensation of production expenditures and expenditures for recultivation of the territory and dismantling of the erected objects.

Article 25-1. Conditions of land use in areas where minerals are deposited

Land areas necessary for performance of work associated with the geological survey and use of mineral resources may be temporarily or permanently alienated (taken away) for state needs, with compensation of the owners of the said land sections for their value in accordance with the land legislation.

The decision on alienation of such land areas is adopted by the federal organs of executive power or the organs of executive power of subjects of the Russian Federation in accordance with the delineation of their competency.

Article 26. Liquidation and conservation of mining enterprises and underground structures not associated with mining

Mining enterprises and underground structures not associated with mining are subject to liquidation or conservation upon expiration of the term of the license, or upon early termination of the use of the mineral resources.

Prior to completion of the process of liquidation or conservation, the user of the mineral resources bears the responsibility placed upon him by the present law.

Upon full or partial liquidation or conservation of an enterprise or an underground structure, the mine excavations and drill holes must be brought to a condition which would ensure the safety of life and health of the population, the protection of the surrounding environment, buildings and structures, and in the case of conservation—also the preservation of the deposit, the mine excavations and the drill holes for the entire time of conservation.

Upon liquidation and conservation of a mining enterprise or a portion thereof, as well as an underground structure not associated with mining, the geological, survey and other documentation is supplemented at the time of conclusion of the work and submitted for storage in accordance with the established procedure.

Liquidation and conservation of a mining enterprise or underground structure not associated with mining is considered to be concluded after signing of the statute on liquidation or conservation by the agencies which granted the license, and by the agency of the state mining oversight.

Conservation and liquidation of mining excavations and other structures associated with the use of the mineral resources is performed at the expense of the funds of the enterprises utilizing the mineral resources.

Article 27. Geological information on mineral resources

Information on the geological structure of the mineral resources and the minerals contained in them, on the conditions of their development, as well as other qualities and peculiarities of the mineral resources which are contained in geological reports, maps and other materials, may be held in state ownership or in the ownership of the user of the mineral resources.

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Geological and other information on mineral resources obtained by the user of the mineral resources at the expense of state funds is state property, and is submitted by the user of the mineral resources in the established form to the federal and appropriate territorial funds of geological information, which perform its storage and systematization. The order and conditions of using the said information are defined by the federal organ of administration of the state mineral resources fund in accordance with the Russian Federation legislation.

Geological and other information on mineral resources obtained by the user of the mineral resources at the expense of his own funds is the property of the user of the mineral resources, and is provided by the user of the mineral resources, in accordance with the established form, to the federal and appropriate territorial funds of geological information, with specification of conditions for its application, including for commercial purposes.

Officials of the federal and territorial funds of geological information must ensure the confidentiality of the information submitted to them, and also bear material, administrative or criminal responsibility for its unsanctioned publication.

The right of ownership to geological and other information on mineral resources is retained in the order established by Russian Federation legislation for other objects of ownership.

The executor has the right to use the geological and other information on mineral resources received as a result of the work performed for scientific and instructional activity, unless otherwise specified by agreement.

Article 28. State accounting and state registration

Work on geological study of mineral resources, sections of mineral resources granted for mining, as well as for purposes not associated with mining, and licenses for use of mineral resources are subject to state accounting and inclusion in the state register.

State accounting and management of the state register are implemented according to a unified system in the order established by the federal organ of administration of the state mineral resources fund.

Article 29. State expert evaluation of mineral reserves

For purposes of creating conditions for the rational comprehensive application of mineral resources and determining payments for use of mineral resources and boundaries of mineral resources sections granted for use, the reserves of minerals at surveyed deposits are subject to state expert evaluation.

Granting the use of mineral resources for the purpose of mining of the minerals is permitted only after a state expert evaluation of their reserves is performed.

The conclusion of the state expert commission on the industrial significance of the explored mineral reserves serves as the grounds for their being placed on state accounting.

The state expert evaluation may be performed at any stage of geological study of the deposit, under the condition that the geological materials submitted for state expert evaluation make it possible to give an objective evaluation of the quantity and quality of mineral reserves, their national economic significant, and the mining-technical, hydrogeological, ecological and other conditions of extraction.

Geological information on sections of mineral resources suitable for construction and operation of underground structures not associated with the development of mineral deposits is also subject to state expert evaluation. Granting such sections of mineral resources for use is permitted only after a state expert evaluation of the geological information is performed.

The state expert evaluation of the mineral reserves and of the geological, economic and ecological information about the sections of mineral resources on which use is being granted is performed by specially authorized state agencies of the Russian Federation and subjects of the Russian Federation in accordance with the procedure established by the Russian Federation Government.

Article 30. State cadaster of deposits and mineral manifestations

The state cadaster [register] of deposits and mineral manifestations is kept for purposes of ensuring the development of federal and regional programs of geological study of mineral resources, comprehensive utilization of mineral deposits, rational location of enterprises for their mining, as well as for other national economic purposes.

The state cadaster of deposits and mineral manifestations must include information on every deposit, characterizing the quantity and quality of the primary and accompanying minerals, the components contained in them, the mining-technical, hydrogeological, ecological and other conditions of development of the deposit. It must also contain a geological-economic evaluation of each deposit and include information on identified mineral manifestations.

Article 31. State balance of mineral reserves

For the purpose of accounting for the state of the mineral-raw material base, a state balance of mineral reserves is kept. It must contain information on the quantity, quality and degree of study of reserves of each type of mineral by deposits having industrial significance; on their location; on the degree of industrial development, extraction, losses, and provision of industrial development of surveyed mineral deposits on the basis of a classification of mineral reserves which is approved in accordance with the procedure established by the Russian Federation Government.

Placement of mineral reserves on the state balance and their write-off from the state balance is performed in accordance with the procedure established by the federal organ of administration of the state mineral resources fund in cooperation with the agencies of state mining oversight.

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Article 32. Management of the state cadaster of mineral deposits and mineral manifestations and the state balance of mineral reserves

The state cadaster of mineral deposits and manifestations and the state minerals balance are compiled and managed by the federal organ of administration of the state mineral resources fund on the basis of geological information submitted by enterprises performing geological study of the mineral resources to the federal and territorial geological information funds in accordance with the present law, and also on the basis of state reportability of enterprises performing exploration of mineral deposits and mining, submitted to the indicated funds in accordance with the procedure established by the Russian Federation Government.

Article 33. Protection of sections of mineral resources which represent particular scientific or cultural value

Rare geological finds, mineralogical formations, paleontological objects and other sections of mineral resources which represent particular scientific or cultural value may be declared geological preserves, sanctuaries or monuments of nature or culture, in accordance with the established procedure. Any activity which disrupts the integrity of the said preserves, sanctuaries and monuments is prohibited.

If rare geological and mineralogical formations, meteorites, paleontological, archeological and other objects which are of interest to science or culture are discovered in the course of using mineral resources, the users of the mineral resources must cease operations on the appropriate section and report this to the agencies issuing the license.

Article 34. Remuneration for discovery of mineral deposits

Persons discovering signs of mineral deposits, rare geological outcroppings, mineralogical, paleontological or other formations which represent scientific or cultural value in a previously unknown section of mineral resources, have the right to register the indicated section of mineral resources in the federal organ of administration of the state mineral resources fund or its territorial subdivision.

Upon confirmation of the value of the indicated sections of mineral resources by the federal organ of state administration of the state mineral resources fund or its territorial subdivision, the persons registering them are paid a reward in the form of monetary remuneration.

Persons who have discovered and (or) explored a previously unknown deposit which has industrial value, as well as those who have found additional reserves of minerals or a new mineral raw material in a previously unknown deposit, which significantly increases its industrial value, have the right to receive state monetary remuneration.

The procedure of payment and the amounts of the reward payment and state monetary remuneration are established by the Russian Federation Government or by the organ of executive power of the subject of the Russian Federation.

Section IV. STATE REGULATION OF RELATIONS IN THE USE OF MINERAL RESOURCES

Article 35. Tasks of state regulation of relations in the use of mineral resources

The primary task of state regulation of relations in mineral resources application is the provision of reproduction of the mineral-raw material base, its rational application and protection of mineral resources in the interests of the current and future generations of peoples of the Russian Federation.

State regulation of relations of mineral resources application is implemented by means of administration, licensing, accounting and control.

The tasks of state regulation include:

—Determination of the volumes of extraction of basic types of minerals for the current period and for the future throughout the Russian Federation as a whole and by regions;

—Provision for development of the mineral-raw material base and preparation of a reserve of areas of mineral resources used for construction of underground structures which are not associated with mining;

—Provision for the geological study of the territory of the Russian Federation, its continental shelf, the Antarctic and the bottom of the World Ocean;

—Determination of quotas on the supply of extracted mineral raw materials;

—Introduction of payments associated with the use of mineral resources, as well as regulated prices on individual types of mineral raw material;

—Establishing standards (norms, regulations) in the sphere of geological study, application and protection of mineral resources, safe performance of work associated with the use of mineral resources, as well as the rational application and protection of mineral resources.

Article 36. State administration of relations in the use of mineral resources

State administration of relations in the use of mineral resources is implemented by the President of the Russian Federation, the Government of the Russian Federation, the organs of executive power of subjects of the Russian Federation, as well as by the federal organ of administration of the state mineral resources fund and the agencies of the state mining oversight.

The federal organ of administration of the state mineral resources fund creates its own territorial subsections in cooperation with the subjects of the Russian Federation.

The federal organ of administration of the state mineral resources fund and its territorial subdivisions may not fulfill the functions of administration of economic activity of the enterprises performing exploration and development of mineral deposits or construction and operation of underground structures not associated with mining, or engage in commercial activity.

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Article 36-1. State geological study of mineral resources

State geological study of mineral resources is being performed in the Russian Federation. Its tasks include: Geological mapping of the territory of the Russian Federation and its continental shelf; Exploration and evaluation of mineral deposits in accordance with state programs; Observation of the state of the mineral resources and prediction of the processes going on in them; Gathering and storage of information on mineral resources, the state of the mineral-raw material base and other types of work associated with the geologicial study of mineral resources.

Organization of the state geological study of mineral resources is placed upon the federal organ of administration of the state mineral resources fund.

Article 37. State control over rational application and protection of mineral resources

The task of state control over the geological study, rational application and protection of mineral resources is the provision of adherence by all users of mineral resources to the established procedure for using mineral resources, to the legislation, to the standards (norms, regulations) in the sphere of geological study, application and protection of mineral resources ratified in accordance with the established procedure, and to the rules of administering state accounting and reportability.

State control over the geological study, rational application and protection of mineral resources is implemented by the organs of state geological control and the organs of the state mining oversight in cooperation with the environmental protection and other control agencies.

The powers and authorities of the organs of state geological control, the rights, responsibilities and procedure of their operation are defined by the statute ratified by the Russian Federation Government.

Article 38. State oversight of safe performance of work associated with the application of mineral resources

The task of state oversight of the safe performance of work associated with the use of mineral resources is the provision of adherence by all users of mineral resources to the legislation and to the standards (norms, regulations) on safe performance of work operations, prevention and elimination of their harmful influence on the population, the environment, buildings and structures, as well as on protection of mineral resources, ratified in accordance with the established procedure.

State oversight of the safe performance of work associated with the application of mineral resources is placed upon the organs of state mining oversight. The organs of state mining oversight implement their activity in conjunction with the agencies of state geological control, environmental protection and other control organs, and professional unions.

The powers and authorities of organs of the state mining oversight, the rights, responsibilities and procedure of their operation are defined by the statute ratified by the Russian Federation Government.

Section V. PAYMENT FOR USE OF MINERAL RESOURCES

39. System of payment for use of mineral resources

Use of mineral resources is for pay, with the exception of cases provided by Article 40 of the present law.

In using mineral resources, the following types of payments are made:

1) fee for participation in the competition (auction) and issuance of licenses;

2) payments for use of mineral resources;

3) deductions for reproduction of the mineral-raw material base;

4) excise taxes.

Moreover, users of mineral resources pay taxes and fees and perform other payments specified by the legislation, including payment for land or for the water basin and the section of the bottom of the territorial sea, as well as payment for geological information on mineral resources. Users of mineral resources may receive a discount from payments for depletion of mineral resources in accordance with Article 48 of the present law.

Collection of other payments, not specified by the legislation, from the user of the mineral resources, is not permitted.

In concluding agreements on conditions of division of production between the Russian Federation and the user of mineral resources, provision is made for division of the extracted mineral raw material. According to the conditions of such agreements, the user of the mineral resources may be exempted from payment of taxes and other payments specified by the tax legislaton of the Russian Federation, with the exception of taxes on profits from the share of products due to the user of the mineral resources in the form of remuneration under the conditions of the agreement. The income received by the Russian Federation from the sale of its share of the product is distributed between budgets of various levels.

Article 40. Exemption from payments for use of mineral resources

The following categories of users of mineral resources are exempted from payment for the use of mineral resources:

1) Owners and proprieters of land sections performing mining of commonly distributed minerals and extraction of underground waters on the territory belonging to them or the land sections leased by them directly for their own personal needs, in accordance with the established procedure;

2) Users of mineral resources performing regional geological-geophysical work, geological mapping, other geological work directed at the general geological study of the mineral resources, geological work on predicting earthquakes and studying volcanic activity, engineering-geological surveys, paleontological, geo-ecological studies, control over the regimen of underground

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waters, and other work performed without significant disruptions of the integrity of the mineral resources;

3) Users of mineral resources who have received sections of mineral resources for forming especially protected geological objects, as specified in point 4, part one, Article 6 of the present law.

For purposes of stimulating the development of mineral deposits located in complex mining-geological conditions or those of poor quality, including those containing reserves of minerals which are difficult to extract; those of poor quality; those which have previously been written off; those which require the use of excavation and holding rock, by-products of the mining and associated processing industries, as well as for purposes of introducing ecologically safe technologies and technologies which increase the yield of primary and accompanying mineral components—users of mineral resources may be partially or fully excused from payments for the use of the mineral resources and receive postponements on making these payments. The decision to grant postponements or exemptions from payment are made by the agencies issuing the licenses for the use of the mineral resources.

The organs of representative power of subjects of the Russian Federation may establish additional grounds for exempting individual categories of mineral resources users from payments which go into the budget of the appropriate subject of the Russian Federation.

Standard legal statutes and decisions of organs of state power which create unilateral advantages for individual categories of mineral resources users are considered to be invalid on the basis of the present law and in accordance with the established procedure.

Article 41. Payments for use of mineral resources

Payment is exacted from users of mineral resources for exploration and survey of mineral deposits, their mining, and use of mineral resources for other purposes.

The amounts of payments for performing exploratory and survey operations are defined depending on the economic-geographical conditions, the size of the section of mineral resources, the type of mineral, the duration of the work, the degree of geological study of the territory and the degree of risk. These payments are collected in the form of one-time and (or) regular installments per unit of utilized section of mineral resources or area. Amounts of regular payments, as a rule, increase depending on the duration of performance of the work.

Amounts of payments for engaging in mining operations are determined with consideration of the type of mineral being mined, the quantity and quality of its reserves, the natural-geographical, mining-technical and economic conditions of assimilation and development of the deposit, and the degree of risk.

Payments for engaging in mining operations are collected in the forms of one-time, as well as successive regular payments, after the start of mining operations. Their amounts are included in the production cost of mining the minerals and are defined as the relative share of the value of the mined minerals and the mining losses which exceed the standards established by the annual plans for mining operations, coordinated with the organs of the state mining oversight. In this case, payment for mining of minerals are collected in double the amount on volumes of above-norm losses.

Payments are not collected for prospecting for a mineral within the boundary of a mine stope granted to the user of the mineral resources for purposes of mining this mineral.

Payments for the use of mineral resources for purposes not associated with mining, including for construction and operation of underground structures, are collected in the form of one-time fees and (or) regular payments. The amounts of these payments are determined depending on the size of the section of mineral resources granted for use, the useful properties of the mineral resources, and the degree of ecological danger posed by their application.

The procedure and conditions of collecting payments for use of mineral resources and the criteria for determining rates are established by the Russian Federation Government. Final amounts of these payments are established at the time of issuance of the license for use of the mineral resources.

Article 42. Distribution of payments for use of mineral resources

Payments for the use of mineral resources go to the federal budget, the budgets of subjects of the Russian Federation, and the appropriate local budgets.

The following go to local budgets:

—Payments for prospecting and surveying of deposits of all minerals and payments for mining commonly distributed minerals on the territories of the appropriate rayons and cities;

—Payments for use of mineral resources for purposes not associated with mining;

—Part of the sum of payments for extraction of minerals, except for common distributed ones.

Part of the sum of payments for extraction of minerals goes to the budgets of subjects of the Russian Federation and to the federal budget, except for those minerals for which payment goes only to the local budgets.

Payments for extraction of hydrocarbon raw materials are distributed in the following order:

—local budget - 30 percent;

—budget of subject of the Russian Federation—30 percent;

—federal budget - 40 percent.

Payments for extraction of other minerals are distributed in the following order:

—local budget - 50 percent;

—budget of subject of the Russian Federation - 25 percent;

—federal budget - 25 percent.

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The distribution of payments for extraction of minerals from unique deposits and groups of deposits of federal significance between the budgets of various levels may be established in other proportions. Proportions are established by agreement of all the interested parties. In cases of dispute, the resolution of this question is adopted by the Federal Assembly of the Russian Federation.

Payments for use of mineral resources of the territorial sea are distributed in the following order:

—budget of subject of the Russian Federation - 60 percent;

—federal budget - 40 percent.

Payments for the use of mineral resources on the continental shelf of the Russian Federation go to the federal budget.

Distribution of payments for extraction of underground waters is established in accordance with the water legislation of the Russian Federation.

In mining minerals on the territory of an autonomous okrug which is within the complement of a kray or oblast, the payments for extraction of minerals go to the budget of the kray or oblast at the expense of half the sum of payments going to the federal budget.

In using mineral resources in regions where minor peoples and ethnic groups reside, part of the payments going to the budgets of subjects of the Russian Federation are used for the socio-economic development of these peoples and groups.

Article 43. Forms of payment for use of mineral resources

Payment for use of mineral resources may be collected in the following forms:

—monetary payments;

—part of the volume of extracted mineral raw materials or other products produced by the user of the mineral resources;

—fulfillment of work or provision of services;

—crediting sums of payments due to the federal budget, to the budgets of subjects of the Russian Federation, or to the local budgets as a share contribution to the statutory fund of a mining enterprise which is being established.

The form of payment is specified in the license for use of the mineral resources.

Payment for the use of mineral resources may not be demanded or accepted in the form of radioactive and other materials and products whose management, in accordance with the appropriate Russian Federation legislation, is under the exclusive competency of the Russian Federation, nor in the form of services of a military character or information which comprises a state secret.

Demanding the presentation of information which comprises a trade secret from the user of the mineral resources in lieu of payment for use of the mineral resources is prohibited.

Article 43-1. Payment for geological information on mineral resources, obtained at the expense of state funds.

Payment may be collected for use of geological information on mineral resources, obtained at the expense of state funds.

The amount of payment for the indicated geological information and the procedure of its collection are determined by the statute ratified by the Russian Federation Government.

Receipt of information on a section of mineral resources by means other than those established by the indicated statute does not excuse the user of the mineral resources from payment for geological information.

The principles of the present article do not extend to geological information on mineral resources obtained at the expense of non-state funds.

Article 44. Deductions for reproduction of the mineral-raw material base

Users of mineral resources performing mining of all types of minerals prospected at the expense of state funds must perform deductions for reproduction of the mineral-raw material base.

The rates of these deductions are established in amounts sufficient to ensure necessary expenditures for reproduction of the mineral-raw material base of the Russian Federation, and are standard for all users of mineral resources extracting the given type of mineral raw material.

Amounts of deductions for reproduction of the mineral-raw material base are established by the Federal Assembly of the Russian Federation upon submission of the Russian Federation Government.

Amounts of deductions for reproduction of the mineral-raw material base are determined as a defined share of the value of the minerals which are in fact extracted.

Part of the sum of deductions for reproduction of the mineral-raw matrial base goes to the federal budget and is used for special purpose financing of work specified by federal programs of geological study of mineral resources.

Part of the deductions, including all the deductions from mining commonly distributed minerals and extracting underground waters used for local needs, upon submission of the federal organ of administration of the state mineral resources fund and organs of executive power of subjects of the Russian Federation, are forwarded to the budgets of subjects of the Russian Federation for target financing of work on reproduction of the mineral-raw material base in accordance with the territorial programs of geological study of mineral resources. Of this, part of the deductions, at the submission of the territorial subdivisions of the federal organ of administration of the state mineral resources fund, may be transferred to the mining enterprises which independently performed work on geological study of the mineral resources.

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The order of utilizing the deductions for reproduction of the mineral-raw material base coming to the budgets of the subjects of the Russian Federation is regulated by legislation of the subjects of the Russian Federation.

Deductions for reproduction of the mineral-raw material base are not performed in mining minerals which are difficult to extract, which are of poor quality, or which have been previously written off, as well as in using excavated and surrounding rock, and by-products from mining and associated processing industries. The decision to exempt users of mineral resources from deductions is adopted by the agencies granting the license for use of the mineral resources.

Users of mineral resources who have performed survey and exploration of the deposits which they are developing at the expense of their own funds, or who have fully compensated all state expenditures for survey and exploration of the appropriate amount of mineral reserves, are exempted from deductions for reproduction of the mineral-raw material base during development of these deposits in accordance with the procedure established by the Russian Federation Government.

Part of the sum of the deductions for reproduction of the mineral-raw material base, in the amount of 0.5-1.5 percent, is directed for payment of remunerations for discovery and exploration of mineral deposits.

Deductions for reproduction of the mineral-raw material base, accumulated in the budgets of various levels and handed over to the mining enterprises, are used only for their designated purpose. The order of their application is determined by the Government of the Russian Federation and the organs of executive power of subjects of the Russian Federation.

Article 45. Fee for participation in competition (auction) and issuance of license

The fee for participation in the competition (auction) is paid by all of the participants, and is one of the conditions of registration of the application. The sum of the fees is determined based on the value of the direct expenditures for preparing, conducting and summarizing the results of the competition (auction), and for preparation, formulation and registration of the license issued for use of mineral resources.

The fee for participation in a competition (auction) and for issuance of licenses is sent to the agencies issuing the license for use of mineral resources.

Article 46. Excise taxes

Excise taxes on individual types of mineral raw materials mined from a deposit with relatively more favorable mining-geological and economic-geographical characteristics may be introduced by the Russian Federation Government in accordance with the Russian Federation law, "On Excise Taxes."

Article 47. Payments for use of water basins and sections of the sea bottom

Payments for the use of water basins and sections of the sea bottom are collected from users of mineral resources of the bottom of the territorial sea who are performing the exploration, survey and mining of minerals and the application of mineral resources for other purposes. Amounts of payments depend on the leased area and its configuration, the depth of the water layer, and the purposes of using the mineral resources. The order and conditions of collecting payments are established by the Russian Federation Government.

Article 48. Discount for depletion of mineral resources

The discount for depletion of mineral resources from payments for the use of mineral resources may be granted:

—To the user of mineral resources performing mining of a mineral which is in short supply with low economic effectiveness of development of the deposit, objectively determined and not associated with violation of conditions of rational application of surveyed reserves;

—To the user of mineral resources performing the mining of a mineral from the remaining reserves of reduced quality, with exception of cases of deterioration of quality of the mineral reserves as a result of selective development of the deposit.

The decision to establish discounts for depletion of mineral resources and the amounts of such discounts is adopted by the agencies issuing the license for use of the mineral resources.

Section VI. RESPONSIBILITY FOR VIOLATION OF THE PRESENT LAW

Article 49. Responsibility for violation of the present law

Deals associated with the use of mineral resources concluded in violation of the present law are invalid.

Persons guilty of concluding the said deals, as well as of:

—granting licenses for use of mineral resources on grounds not specified by the present law;

—violating the order of mineral resources application established by the legislation;

—using mineral resources without authorization;

—selective (extra-plan) development of a deposit, leading to unsubstantiated losses of mineral reserves and other violations of rational application of mineral resources, resulting in the ruination of the deposit;

—violating the present law, violating the standards (norms, regulations) on safe performance of work associated with the use of mineral resources, on protection of mineral resources and the environment which have been ratified in accordance with the established procedure, including violations leading to contamination of the mineral resources and bringing the mineral deposit to a state unsuitable for operation;

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—violating the right of ownership of geological and other information on mineral resources, or its confidentiality;

—unauthorized building in areas of mineral deposits;

—failure to provide security of buildings, structures, as well as specially protected territories and objects of the environment during use of mineral resources;

—destruction or damage to wells drilled for the purpose of observing the regimen of underground waters, as well as surveyer's and geodesic symbols;

—systematic violation of the procedure of making payments for use of mineral resources;

—failure to fulfill requirements on bringing liquidated or conserved mine excavations and drilled wells to a state which would ensure the safety of the population; as well as the requirements on safekeeping of the mineral deposits, mine excavations and drilled wells for the time of their conservation;

—failure to bring sections of land and other natural objects disrupted during the use of mineral resources to a condition suitable for their continued use;

Shall bear criminal responsibility in accordance with the legislation of the Russian Federation, as well as administrative responsibility in accordance with the legislation of the Russian Federation and the legislation of subjects of the Russian Federation.

The legislation may establish responsibility for other violations of the present law.

Article 50. Procedure for settling disputes

Disputes on questions of the use of mineral resources are resolved by the organs of state power, by the court or arbitration court in accordance with their powers and authorities and in accordance with the procedure established by the legislation.

The following are subject to review in court or arbitration court:

1) Financial, property and other disputes associated with the use of mineral resources;

2) Appeals of decisions by organs of state power which contradict the present law, including on refusal to grant a license for the use of mineral resources or on early termination of the right to use mineral resources;

3) Appeals of actions and decisions of officials and agencies which contradict the present law;

4) Appeals of standards (norms, regulations) on technology of performing operations associated with use of mineral resources, protection of mineral resources and the environment which contradict the legislation.

Article 51. Compensation of inflicted damages

The damages inflicted upon the user of mineral resources as a result of the activity of enterprises, institutions, organizations, organs of state power, officials and citizens guilty of violating the natural properties of mineral resources or creating conditions which partially or fully exclude the possibility of continued use of the mineral resources, are subject to compensation at the expense of the funds of the enterprises, institutions, organization, citizens, or the funds of the appropriate budgets.

Damages inflicted upon the state as a result of the activity of the user of mineral resources guilty of selective development of rich sections of mineral deposits, as well as other actions which have led to the ruination of the deposit or the creation of conditions which partially or fully exclude the possibility of continued use of the mineral resources, is subject to compensation at the expense of the user's own funds.

Damages inflicted upon the state in the case if the section of mineral resources is not handed over for use are also subject to compensation.

The amount of damages is determined by the federal organ of administration of the state mineral resources fund.

Compensation of damages inflicted upon the state is performed by means of payments to the federal budget, the budgets of subjects of the Russian Federation and local budgets.

By agreement of the interested parties, the monetary form of compensation of damages may be replaced with performance of work on restoration of the disrupted natural properties of the mineral resources.

Unauthorized use of mineral resources and unauthorized building on areas of mineral deposits are terminated without compensation of expenditures incurred during the time of the unlawful use of the mineral resources.

Section VII. INTERNATIONAL TREATIES

Article 52. International treaties

If an international treaty of the Russian Federation establishes different rules than those provided in the present law, the rules of the international treaty shall take precedence."

* * *

Article 2. On terms and procedure of implementation of the present federal law

1. The present federal law shall be implemented from the day of its official publication.
2. The Government of the Russian Federation shall adopt the normative legal statutes necessary for realization of the present federal law.

[Signed] President of the Russian Federation B. YELTSIN
Moscow, the Kremlin, 3 March 1995, No 27-F3

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*State Fails To Regulate Monetary Sphere

954E0770A Moscow IZVESTIYA in Russian 16 Mar 95 p 4; FINANSOVYYE IZVESTIYA Supplement No 18

[Article by Lev Makarevich, Association of Russian Banks expert: "Disorderly Actions by Government Create New Threats of Explosion in Financial Realm"]

[FBIS Translated Text] Statistics published by the Russian Federation Central Bank indicate a sharp worsening of the balances of a majority of Russian commercial banks. The current state of assets, liabilities, liquidity, etc. leaves virtually no hope of improvement in the near future. The main reasons for this are, as before, the general economic crisis, which has not yet completed its destructive work, and the policy pursued by government, which has absolutely no idea of how to channel that destructive force in a constructive direction. The government's chaotic, disorderly actions are creating new and even more explosive traps in the banking field.

The very first thing one notices about operations by banks and their customers is the transition to extremely short terms for use of their resources. Banks are categorically refusing to invest in production under current conditions (political, legislative, tax-related and others). Since the summer of 1994 even the miniscule long-term investment that did exist in the production sector has begun to shrink, totalling approximately R3.5-4.0 trillion [rubles], or 4.5 percent of total lending. Of the total lending volume of R77-80 trillion, 95-97 percent go into the "short" money market. A significant portion of funds are being shifted abroad for safekeeping (a minimum of $15-20 billion annually).

Cumulative balance figures for Russian banks cited under the heading of "Cash Funds" indicate an increasing rate of growth in account balances. Furthermore, more than 60 percent of the total amount is under heading 032 ("Cash Funds in Transit") and represent balances that exceed established limits on operating account balances.

This is an extremely alarming symptom. On the one hand, it indirectly indicates significantly accelerating inflation (which in March is likely to exceed 20 percent). Account balances have increased sharply as a result of provisions received out of the revenues of trading and non-trading organizations for goods sold by them at higher prices. It is in this way that producers are attempting to compensate for declining output. This influx of cash is so large that banks, in order to avoid penalties, are sending the "excess" funds out "on the road." But in such a way that their customers can access them at any time.

The dynamics of cash balances is setting off other alarm signals as well. The public is withdrawing more money from banks than it is depositing. At the end of 1994 the gap totalled approximately R1.5 trillion. This is attributable not so much to a loss of confidence in banks as to the system and the situation in the country as a whole, and to fear of inflation and unpredictable actions by governments. An impressive portion of cash flowing into accounts is increased revenue from sales of hard currency, to which citizens are transferring their savings. According to the most conservative estimates, in 1994 the public spent R50-60 trillion for that purpose. In essence, voting in the parliamentary and presidential elections has already begun.

Managers of enterprises are becoming increasingly convinced that the government is not capable of controlling the situation at a macroeconomic level. Therefore companies are also changing the way they deposit their funds. In recent months there has been a slowing of the growth in deposit accounts. More and more funds are being taken out of them and transferred to mobile accounts that are accessible upon demand. And from there into even more liquid settlements, current and special-purpose accounts designed to fund operations, where they are more easily accessed. No, the money in these accounts is not working at full capacity or producing a substantial return. But to clients in the current highly alarming situation it is becoming much more important to preserve their capital than it is to produce income.

Depositor behavior is also affected by the non-payment problem. Even though the mixed and state-owned sector has learned to utilize mutual debts to rob money back from the treasury (transferring money to the heading "Funds in Settlements", not paying taxes, shaking down financing on favorable terms, etc., since the government has failed to create normal property laws), there is a minimum number of accounts that have to be paid, even if among themselves. Furthermore, the size of these payments is constantly increasing. In March the total indebtedness of enterprises in industry, transportation, construction and agriculture (including debts on loans exceeded R240 trillion. Of that amount, more than R100 trillion was overdue.

This puts an enormous burden on bank balances. In February the overdue indebtedness of enterprises and organizations to commercial banks totalled approximately R6 trillion. Among non-payers the largest proportions of overdue loans were in the timber, wood processing and paper industry (29 percent), the textile industry (26 percent), the microbiological industry (24 percent) and the agricultural sector (20 percent). Banks are now trying to stay as far away from those industries as they can.

The situation is no better in other manufacturing industries, which, you will recall, are the founders and shareholders of roughly 80 percent of Russia's banks. The increase in their indebtedness to their shareholders and customers affects the banks as well. At the beginning of 1995 they owed the most to the following sectors: fuels—R17.4 trillion (including R12.7 trillion overdue); electric power—R12.8 trillion (R8.8 trillion); transportation—R12.2 trillion (R10 trillion); machine building and metal working—R8.9 trillion (R5.7 trillion); construction—R8.7 trillion (R4.8 trillion); oil production—R8.1 trillion (R5.8 trillion); ferrous metals—R5.8 trillion (R3.2 trillion); chemical and petrochemical—R4.7 trillion (R2.6 trillion); oil refining—R3.3 trillion (R2.7 trillion); gas—R3.2 trillion (R2.7 trillion); non-ferrous metals—R2.6 trillion (R1.4 trillion); coal—R2.3 trillion (R1.4 trillion); agriculture—R1.8 trillion (R1 trillion); food—R1.7 trillion (R1.1

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trillion); timber, wood processing and paper—R1.3 trillion (R800 billion); light industry—R800 billion (R400 billion); etc. Furthermore, the state, by not paying for what it orders, remains the largest debtor. A single ruble not paid by the state creates three to six rubles in non-payment through a domino effect.

The section entitled "Credit and Settlement Transactions" in the banks' cumulative balance confirms the continuing decline in available resources to back bank loans. The ratio of short-term loans and funds in the settlements accounts of commercial organizations was 3.4 at the end of 1994. At the beginning of 1993 this ratio was 1.8. Worsening of this indicator points to a growing shortage of operating capital on the part of customers and the complete conversion of their balances in these accounts into "sprinter" loans. As a consequence, banks are losing their ability to use enterprises' funds as a lending source. Banks are forced to buy the funds they lack in the "short" money market at any cost, thus placing an additional burden on the entire credit mechanism.

Of Russia's 14 principal regions, in only five (Northern, Northwestern, Central, including the Moscow Region, and Baltic) were funds in banks' settlements accounts backed by cash on hand in an amount of 10-30.5 percent, i.e. ranging from a tolerable to a relatively positive level. In the other nine regions backing was below 10 percent. The worst situation of all was reported in Eastern Siberia (6.1 percent), the Far East (4.4 percent) and the Northern Caucasus (3.3 percent). Today these are the tensest zones, not only in banking terms, but also in a sociopolitical and economic sense, a fact illustrated by Chechnya, Ingushetia, Maritime Kray and Vorkuta, for example.

Judging by the section entitled "Securities Transactions," banks are resolutely declining to participate in the Russian stock market in its present form. Those transactions comprise less than 1 percent (!) of banks' total currency balance. The banks' attitude is easy to explain. The government and supervising state agencies are directly to blame for the fact that virtually all exchange and off-exchange trading in Russia consists of buying and selling in speculative "junk" securities. The latter include GKO [state short-term bonds] and KO [short-term bonds], the return on which has been raised to hundreds of percent by the state. Out of the total volume of their very modest expenditures, the banks allocate approximately 70 percent to transactions involving state obligations (in other countries this is usually not more than 25 percent). They spend even less on other securities: non-state securities—11.2 percent; joint-stock company shares—8.7; shares in enterprises—3.7; bills—7 percent.

The assets part of the cumulative balance entitled "Settlements to Banks and in Connection With Outside Funds" reflects loans made by commercial banks to each other, as well as loans extended to them by the Russian Federation Central Bank. The liability part refers to commercial banks' payments into mandatory reserve funds. The 1994 figures clearly indicate that even though the total amount of interbank loans is small (approximately R7 trillion), the underlying rate of growth in mutual lending among commercial banks is significantly outpacing the rate at which loans are being extended to enterprises, organizations and the general public. Furthermore, it should be borne in mind that most of the loan recipients in the latter group are very resourceful, profitable commercial firms, not the production sector and individual citizens.

This section confirms that the East Siberian, Central Chernozem, Northern and Volgo-Vyatka regions and traditionally crisis-plagued Maritime Kray and the Northern Caucasus remain heavily dependent on Russian Federation Central Bank loans. They also lead in overdue debt on short-term and long-term loans. Yet in terms of their potential, which the state is simply unable to harness, each of these regions could quickly become prosperous.

The significant surplus of Russian Federation Central Bank loans to commercial banks over their mandatory reserve funds (by a factor of 1.6) is a misleading figure, to put it mildly. On 1 February the Russian Federation Central Bank raised the level of mandatory payments. For funds used by banks in the "short" market (foreign currency, interbank loans, commercial loans, etc.), which are deposited in demand accounts until demand and banks' short-term liabilities up to 30 days—22 percent, for liabilities between 30 and 90 days—15 percent, and for more than 90 days—10 percent. At the same time it was officially stated that: "If banks restructure their liabilities, attract long-term deposits and provide at least medium-term loans to production sectors, it may be possible (!) to consider at some time in the future the possibility of reducing mandatory reserve rates for periods greater than 90 days."

The result? The amount of mandatory reserves paid into the fund exceeds the banks' cumulative authorized capital by a factor of four. If you look at certain commercial banks, you find a situation that is absolutely absurd: the amount of required reserves is two to five times greater than the profits they receive. There is not a single civilized country in the world that has "fees" this high.

But even that is not all. In 1994 the Central Bank required banks to create reserves for questionable debts on loans when they were preparing their annual accounting reports. Considering the scale of non-payment, the measure was a timely one. In its commentaries the government solemnly proclaimed that these reserves would be taken from commercial bank revenues prior to taxation and would be regarded as expenditures, and that fiscal agencies would take this into account.

Within six months the very same government (along with the Russian Federation Central Bank) was essentially turning a blind eye to a flagrantly arbitrary act by its own agencies, i.e. the State Tax Service and the Ministry of Finance, which essentially on their own authority rescinded the Cabinet of Minister decree, requiring fiscal agencies not to take the aforementioned expenditures into account, but instead to increase deductions from banks' profits. And to do exactly the same thing if the banks were suddenly to decide to extend loans to enterprises at rates below the Central Bank's discount rate. Russia is the only

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country in the world where banks are severely penalized for extending loans on favorable terms.

The new Central Bank-introduced procedure for compounding interest on the unpaid interest on centralized loans to the agro-industrial complex has been absolutely ruinous for many commercial banks and for the Russian economy as a whole. Arbitrarily assigned to be the primary channel and officially responsible party for that kind of financing last year were the Roasagrobank system (with its 1,300 branches throughout the country) and other banks.

From the very start it was clear that the loans were absolutely unrecoverable, because the government has not given Russia's farmers land, or freedom, or normal operating conditions. And so it was. The debts must now either be written off, like in Soviet times, or subsumed under a refinancing of the agricultural sector, as is planned in the 1995 state budget. Except that they forgot about the "responsible" banks, which are faced with the threat of having to pay the Central Bank interest on interest at an insane rate: 3,000 percent annually!

Another tightening of regulations was the introduction on 1 February 1995 of payments into Central Bank mandatory reserves on current accounts in foreign currency (the liability balance under balance sheet item 070) in an amount of 2 percent. This amount is to be paid in rubles. Together with the 30-percent reduction in limits on an open foreign currency position, an increase in the discount rate to 200 percent and an increase in mandatory reserves, this was supposed to prevent a repeat of "Black Tuesday" (as predicted by the Russian Federation Central Bank) on 4-19 January.

Banks do in fact hold approximately $10 billion in foreign currency deposits. Many are expanding their foreign currency operations. Some are even setting up liabilities, including private funds, in foreign currency. For the commercial banks this serves as a powerful and reliable hedge against inflation and greatly simplifies their cooperation with foreign partners in the world markets. And for Russian businesses this is an impressive source of relatively cheap loans (at 10-25 percent annual interest).

However, in the Central Bank's opinion there is another side to the coin. These banks are allegedly dollarizing Russia's balance of payments and have purportedly begun making huge profits on hard currency transactions since the repeal of the exchange rate differential tax. They have not contributed any funds toward regulating the total amount of currency in circulation in the country. In the view of 12 Neglinnaya St., the 2 percent reserve will make it possible to improve the structure of balances and commercial banks. And to stabilize the situation in the currency market. Read: reduce pressure on it by the commercial banks, even though the main destabilizing factor in the market is in fact the state, which continues to live beyond its means.

Financial circles also cite other reasons for the Central Bank's fondness for reserve funds. As a result of the payments required under the new standards, the Central Bank's mandatory funds could grow to a total of R15-20 trillion. Those huge sums will not only be simply taken away from banks and not be drawing interest. In contrast to central banks in other countries, the Russian Central Bank behaves like a purely commercial enterprise. It actively trades in resources at its own credit auctions, selling banks their own money back at market prices, as well as in the interbank market (in both rubles and foreign currency) via "related" structures or banks in which it holds a share of the authorized capital. Bankers have repeatedly publicly accused the Central Bank of using their funds yet not giving them anything in return. At 12 Neglinnaya St. that sort of accusation is dismissed as pure nonsense. Yet the international auditing firm Coopers & Lybrand could not find answers to many questions when it audited the Central Bank.

Of course, when it introduces new reserve standards the Central Bank can report to the authorities how it is once again saving the economy from "overheating" in the financial market. In fact, it is the state's policy, which long ago suspended all reforms, that is helping to drive the economy to its most critical point to date. In particular by substantially reducing banks' ability to invest in production. It is reinforcing their worst fears about the outlook for their capital.

These latest fees are essentially just another excessive tax on banks, which already pay more on their profits (45 percent) than enterprises do (38 percent). But it makes no sense to hang yet another fiscal or reserve burden on banks. As purely service-based institutions they will immediately pass that burden along to their customers, to the state-owned enterprises, by making their services and their loans more expensive and reducing the term for which they will lend, as we are seeing today. State enterprises in turn will have no other option but to beg the government for more money. And the closer the elections are, the more insistent they will be.

*Government Privatization Policy Criticized

954E0787A Moscow KOMMERSANT-DAILY in Russian 23 Mar 95 p 3

[Article by Sergey Burkov, chairman of the State Duma Committee on Property, Privatization and Economic Activity: "We Want to Sell Cheap State Property at a Higher Price"]

[FBIS Translated Text] **The government meeting at which Russia's privatization policy was to have been discussed was never held. Yesterday, at the very last moment, it was postponed for an indefinite period (possibly, the meeting will be held next week). However, the discussion which went along with this meeting has already had time to develop. Goskomimushchestvo [State Committee on Administration of State Property], obviously, has also not been left out of this discussion, in which it is the most influential participant. The chairman of the State Duma Committee on Property, Privatization and Economic Activity, SERGEY BURKOV, presented his rather critical point of view of the government's policy of replenishing budget expenditures at the expense of privatization, which he outlined specially for KOMMERSANT-DAILY.**

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On the Amount and Distribution of Funds Obtained From Privatization

The main document regulating the distribution of funds from privatization is the "Basic Principles of the State Program of Privatization of State and Municipal Enterprises After 1 July 1994," ratified by the presidential edict of 22 July 1994. In accordance with this document, the federal budget would receive 10 percent of the funds from the sale of shares in enterprises held in state and municipal ownership. In one of the first estimates of income to be received by the federal budget from privatization in 1995, which the GKI [State Committee for Administration of State Property] presented to the State Duma during discussion of the budget, this income was defined in the amount of 9.34 trillion rubles (R). For this it is necessary for the overall proceeds from privatization to comprise R93.4 trillion (the GKI proceeded from 10 percent deductions to the federal budget).

However, these computations immediately evoked doubts. It was necessary to prove that investors really can make such grandiose investments into privatization. Considering the fact that in 1995 the government plans to "bind" only around R30 trillion with state obligations, in order to receive the budget income from privatization proposed by the GKI, investments into state securities and privatization would have to comprise a sum in excess of R140 trillion—and this not counting the investments into securities of private companies. In connection with this, the State Duma Committee on Property, Privatization and Economic Activity has forwarded a request to the GKI and Minfin [Ministry of Finance] to substantiate the volume of solvent demand of investors which they presuppose in 1995. Minfin has not presented its substantiation, but GKI finally developed a new variant of computations of the income from privatization, in which the overall anticipated income was significantly reduced, while the retention of budget revenues was achieved by means of increasing the standard to 55 percent. In their final form, these computations appear as follows: Revenues to the federal budget -R9.13 trillion (of those, R6.99 trillion is from the sale of shares in oil companies); Overall anticipated income from privatization in 1995—R24.43 trillion. In any case, the main result of discussion of the draft budget for 1995 for the GKI became the idea of changing the standards of distribution of funds from privatization for replentishment of the budget. It is logical to expect special government decrees which will correct these standards.

Enterprises whose state shares are subject to sale ahead of schedule in 1995 (draft)

Enterprise	Size of stock package intended for sale (% of statutory capital)
RAO [Russian Joint-Stock Company] "EES of Russia"	10
AO [joint-stock company] "Rostelekom"	15*
AO "Svyazinvest"	15
AKP [joint-stock commercial enterprise] "Sovkomflot"	25
RAO "Norilsk nikel"	38
Joint-stock companies created in the order of privatization of gold mining enterprises	fully
Enterprises of the VPK [military-industrial complex] and the atomic-energy complex which do not perform development or production of arms, military equipment, or processing of radioactive and rare earth elements	no less than 25 percent

*The Federal Commission on Securities and the Stock Market insists on sale of 25 percent of the stock.

Predicted Funds to be Received From Sale of State Property in 1995

Source of revenues	Receipts, million rubles
Stock in operating and newly created oil companies	12,659,578
Stock released from federal ownership	1,649,706
Stock held in the RFFI [Russian Federal Property Fund]	4,861,879
Stock in newly privatized enterprises	802,428
Land plots under privatized enterprises	1,048,565
Sale of unfinished construction sites	3,409,901
Total	24,432,057

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Distribution of Funds From Early Sale of Stock Secured in Federal Ownership

1. Local budgets - 99 percent;
2. Budgets of republics within the complement of the federation, krays, oblasts, the autonomous oblast, and autonomous okrugs - 15 percent;
3. Federal budget - 55 percent;
4. Goskomimushchestvo of Russia - 1.2 percent;
5. Committees on administration of property, territorial agencies of Goskomimushchestvo -4 percent;
6. Russian Federal Property Fund - 0.8 percent;
7. Property funds of national-state, national and administrative-territorial formations - 4 percent;
8. Specialized budget fund for financing development of the securities market infrastructure - 2 percent;
9. Privatized enterprises - 9 percent.

On Valuation of the Selling Price of Shares in Oil Companies and Other Enterprises

In its computations of the amount of revenues to be received from the sale of shares in privatized enterprises, the GKI bases its estimates on their current quotes on the secondary market. However, this approach evokes doubts. First of all, only thousandths of a percent of shares in privatized enterprise circulate on the secondary market. Moreover, any efforts to sell a large number of shares on the market immediately lead to a drop in the quotes. Thus, the sale of from 10 to 55 percent of the shares in privatized enterprises outlined by the GKI for 1995 will lead only to an avalanche-like drop in their quoted prices. Therefore, the stock quotes used as the basis for the GKI computations (for a 1000-ruble share of oil companies—up to R755,400; for a share in RAO "Gazprom"—R640,500), are clearly overestimated. Secondly, in 1995 the primary methods of sale of the shares will be specialized monetary auctions and investment competitions. In accordance with the effective order, the starting price of the shares at the auctions may not exceed the face value by more than 20 times. Therefore, it is doubtful that it will be possible to bring the selling price up to the indicators planned by GKI at such auctions. On the whole, we may consider that the quotes used as the basis for the GKI computations are overstated by approximately 5-10 times. More likely, no more than R1.6 trillion will be received from the sale of the shares in the oil companies (and not the R12.66 trillion, as the GKI plans). This means that the budget may receive R0.88 trillion, instead of R6.99 trillion.

Conclusions

The methods of privatization secured in the effective normative statutes make it principally impossible for the state to obtain considerable funds, and presuppose the sale of state property at understated prices. The effective standards of distribution of funds from privatization do not facilitate an increase in budget revenues. Under the guise of replentishing these revenues, the GKI may resort to the mass sale of state property. In this case, the sale of 55 percent of the shares of newly created oil companies proposed by the GKI would lead to full and final loss of control of the oil sector.

We must prohibit, by means of legislation, the early sale of packets of stock in oil companies secured for the state. The purpose of monetary privatization is to maximally increase budget revenues—not at the expense of increasing the volume of property sold, but rather at the expense of increasing the effectiveness of such sales.

[Begin boxed material]

Position of Goskomimushchestvo

Strictly speaking, the materials prepared by Goskomimushchestvo for the government meeting contain answers to many of Sergey Burkov's questions. The key role in achieving such a goal as replentishment of the budget must, in the opinion of the GKI, be played by two documents—the president's edict on measures for ensuring guaranteed revenues to the federal budget from privatization in 1995, and the government decree on the results of privatization of state and municipal enterprises in 1994 and the measures for increasing the effectiveness of privatization in reforming the economy of the Russian Federation.

The decree must immediately put an end to all discussions about standards of distribution of the proceeds from the sale of state packets of stock—55 percent of these proceeds must be transferred to the federal budget. In this same way, the government, if we judge by these two drafts, does not intend to introduce a universal mechanism for determining the starting price: P. 4 of the edict permits determination of the initial price of shares in AOs "which enjoy increased demand among Russian and foreign investors," regardless of the limits set by the basic principles of the state program of privatization. Moreover, the draft edict of Boris Yeltsin establishes a strict quarterly plan for receipt of privatization revenues by the budget: In the 1st quarter this is R1.5 trillion, and in the 2nd and 3rd it is R4 trillion each. In connection with this, it is presumed that there will be a total rejection of holding investment competitions, which may be held only if their implementation "ensures an increase in proceeds of funds to the federal budget."

As for the demand for the shares offered for sale by the government, Goskomimushchestvo seriously expects to attract funds from foreign investors—in Russia as well as on foreign stock markets. At least, both documents contain special points in this regard: The edict obligates Goskomimushchestvo to develop a mechanism ensuring the possibility of sale of part of the stock on the foreign stock market, while the decree obligates it to publish in the Russian and international press a schedule for sale of state property, and to involve professional stock market participants in organizing the sales, including also foreign investment banks.

In general, the documents prepared by Goskomimushchestvo place primary emphasis on the purely technical questions of the sale of state property. Moreover, allowing for the possibility of the collapse of the national stock market in general (due to the mass supply of state shares), the authors of the documents are assuming only the responsibility for "developing a program aimed at realization of measures for ensuring the effective sale of shares in 1995-1997 on the basis of increasing the exchange value of the

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shares sold." Altogether, as it follows from one other document which was prepared (or rather, revised) for the government meeting—an analytical report on the results of privatization in 1994, today 7.9 percent of the shares in AO created in the process of denationalization are held in state ownership. Aside from this, there are 1,976 enterprises in which the state owns 51 percent of the shares, and another 1,004 AO in which the state holds the so-called "gold stock."

[End boxed material]

*Projected Economic Program for 1995-1997 Reported

954E0797A Moscow KOMMERSANT-DAILY 25 Mar 95 p 2

[Article by Vladislav Borodulin: "1001 Nights. Official Publication of Russian Government"]

[FBIS Translated Text] **"Reforms and Development of the Russian Economy in 1995-1997"—that is the title of new, fifth in number, economic program of the post-Soviet government of Russia. It is unique in its own way: First of all, the general economic program is planned for 3 years in advance and for the first time, although purely theoretically, it is presumed to be implemented by two components of government—the cabinet of Viktor Chernomyrdin and that which may come to replace it in mid-1996. The new government program is the direct legacy of the four preceding ones, and it brings the ideology which had gradually been formulated in the course of 1992-1994 to its logical conclusion: The best program is the absence of any program whatsoever.**

Stage of economic romanticism

The history of efforts of the Russian authorities to give their actions some semblance of planned development is rather short. It was only slightly more than 4 years ago that the government of Ivan Silayev formally took into its arsenal the program of Grigoriy Yavlinskiy, "500 Days," which had been rejected by the union's Council of Ministers. However, since the Summer of 1990, many program documents have appeared in Russia (five of which were officially adopted), so that we may quite reliably trace the tendency of economic programming.

Thus, the first official program of the Russian government was the "500 Days" program developed by Grigoriy Yavlinskiy and rejected by Mikhail Gorbachev. Accordingly, its practical value consisted of only one thing—it specifically was the first to define that set of liberal-economic values which subsequently, in various proportions, made their way into later government and alternative programs. At that time, of course, there was no discussion of realizing Yavlinskiy's ideas in practical application: The real economic power of the RSFSR leadership did not go beyond the boundaries of the parliamentary-governmental residence—the White House, and the program adopted to spite the union authorities was doomed to failure.

In August of 1991, the idea of the deep-seated and irreversible crisis of the administrative system became the official ideology of the authorities, and therefore the republic government enthusiastically delved into the development of various programs. By the end of the Summer of 1991, there were at least three documents in existence which equally aspired to the status of being official: **"Proposals on Organization of Economic Interaction of Sovereign States (Scenario of Economic Reform)"** of Yevgeniy Saburov and Aleksandr Granberg, the "Convention on Establishing an Economic Community," by Stanislav Shatalin, and the program of Yavlinskiy. The opposition of these documents (in which the victor was for a very short time the program of Saburov), the struggle of the integrational and disintegrational ideologies in regard to the other republics of the USSR first became apparent.

In its ideal, the "Convention" of Shatalin differed notably from its competitors. The draft proceeded from the assumption that economically independent states would participate in the signing of the "Convention," and they had only to agree on what relations they could establish. The "Proposal" of Saburov-Granberg, on the other hand, proceeded from a diametrically opposed conception—an economic agreement, and consequently a program of actions by the governments must retain at least the "nucleus" of several republics, which will assume the responsibility for implementing a unified economic policy.

We write one program, and keep another in mind

Yet, as paradoxical as this may appear on the background of the official status of Saburov's program, in already 3 months Yegor Gaydar began to espouse the idea of Academician Shatalin. Moreover, his ideas, in essence, represented a synthesis between the liberal-economic set of Yablinskiy and the disintegrational policy of Shatalin. The **"Basic Directions of Economic Policy of the Russian Federation" (for coordination with the International Monetary Fund)**, published in March of 1992, were a translation of the demands of the IMF [International Monetary Fund] for any country aspiring to aid, translated from English. And the Gaydar government, recognizing the total lack of promise of reforming the economy with mass Western aid, was forced to assume obligations which it knew it could not fulfill, and which were laid out in a timetable.

In the Summer of '92, the first crisis in economic program-making occurred—liberalization of prices had on the whole already been implemented, privatization was beginning, and the developers of the governmental programs were faced with not so much theoretical as purely practical goals. The strict dependence on the demands of international financial organizations, which invariably insisted on inclusion of measures to combat inflation in the programs, were accompanied by pressure from the industrial lobby, which insisted on mass financial infusions into the economy. Therefore, the governmental programs began to give primary attention to a combination of strict financial policy and the fight against decline of production.

The **"Program for Intensifying Economic Reforms for the Medium-Range Future,"** of Yegor Gaydar's government, which appeared in November of 1992, bore just such a character, as did also the "Program of Immediate Measures for Revitalizing the Economy" which was limited to half a year, and the **Working Program of the Council of Ministers-Government of Russia for 1993-1995: Development of Reform and Stabilization of the Russian Economy**, which had been

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developed already under Viktor Chernomyrdin. Amorphous in their content, these programs made it possible to practically instantaneously correct the government's course in accordance with political changes. Therefore, such documents required almost quarterly revision—this was done in the form of "plans for work of the government" for a definite period and an ongoing inexhaustable stream of directives by the premier "on change (repeal) of point number such-and-such of plan such-and-such." Ultimately, beginning with last year, the government even stopped pretending that it was following any program which was in the least bit clearly formulated, replacing it with the president's message to parliament, which was carefully broken down into quotes, and a plan of action compiled according to them. Then again, the inability of the government to implement any "constructive" program also had positive consequences: It parried the accusation of the radical opposition claiming the consious destruction of the principles of the national economy—in order to fulfill a "destructive" plan, one must know how to follow it.

And so, the second crisis of Russian program-making became apparent. However, due to the inertia of the process of developing an economic strategy, on the wave of this crisis the fifth program was born: **"Reforms and Development of the Russian Economy in 1995-1997."** It is true, the fact that this program appeared in specifically this form cannot be explained by inertia of thinking alone. Under pressure of the IMF, the government was finally able to reject the idea of a moderately strict financial policy in favor of an unconditionally strict one.

It would be logical to expect that in the most long-range program, the the government will resort to generally useless and rather curious games of studying the future: Up to the present time, no serious efforts have been made to define the country's role in the future world (at least we cannot attribute the general discussions about the future economic greatness of Russia to such attempts). However, the idiosyncracy of the authorities toward such endeavors has not only not declined, but has even increased. The idea that absolutely all sectors of the economy will always be represented in Russia is becoming ever more popular in the government. And to make predictions today (and especially to assume responsibility) about what the priorities are constitutes a useless and even harmful undertaking.

And finally. In the program approved yesterday, the principle of "the best program is the absence of any program whatsoever" is taken to the absolute. The substitution of goals by means (financial stabilization, stimulation of investments, etc.) places an ideological foundation under the new principle espoused by the authorities: "There are no simple means, and to search for them is not a matter for a serious government."

Estimated federal budget indicators for 1995-1998 (percent of GDP [gross domestic product])

Indicators	1995	1996	1997	1998
Budget income	14.5	15.5-16	16-17	17-18
Budget expenditures	21	20-21	20-21	20-22
Budget deficit	6.5	2-5	3-4	3-3.5
Including:				
Domestic borrowing	2.5	5-5.6	4-4.8	3.7-4
Foreign borrowing	3.3	-0.5 - 0.8	-0.5 - 0.7	-0.3 -0.5
Bank financing	2.3	3.5	2-2.4	1.0-1.2
Non-bank financing*	0.2	1.5-2	2-2.4	2.7-2.8

**Non-bank financing is understood to be the purchase of state securities by the public, enterprises and large institutional investors.*

Prediction for development of the economy of Russia for 1995-1997

Indicators	1995		1996		1997	
	Variant I*	Variant II**	Variant I	Variant II	Variant I	Variant II
Consumer price index, average for month (%)	4-5	6-7	1-2	3-4	1	2
GDP (% of previous year)	92-94	88-92	96-101	94-98	102-106	98-102
Industrial production	93-95	88-92	99-102	94-96	103-107	98-102
Agricultural production	89-91	83-87	96-100	94-98	100-105	98-102
Capital investments	89-91	78-87	95-101	94-98	105-110	95-100
Including:						
Production	81-84	75-80	90-95	86-92	110-115	100-106

**This variant presupposes that the fulfillment of the government program will not be disrupted by unforeseen changes in the domestic political situation or other unfavorable factors.*
***This variant presupposes a more significant effect of unfavorable factors, hindering the achievement of macroeconomic stabilization*

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Payments balance of Russia (billion dollars, not including CIS participant states)

Indicators	1992	1993	1994*	1995*	1996**	1997**
Balance of current operations	-5.4	-0.8	-2.8	-4.7	-3.0	-5.0
Trade balance	4.7	9.5	9.8	12.8	12.0	10.0
Balance of services	-10.1	-10.3	-12.6	-14.3	-15.0	-15.0
Account of operations with capital	-7.7	-8.5	-17.5	-16.3	-7.5	-2.5
Including:						
Attracted medium- and long-term credits	3.3	-9.5	-12.5	-13.5	-13.0	-13.0
Short-term capital	-5.9	-3.1	-8.5	-5.3	1.0	3.0
Direct and portfolio investments (net)	0.7	0.4	1.0	2.5	4.5	7.5
Other	3.2	3.7	2.0	0.0	0.0	0.0
Omissions and errors	-9.6	-4.7	-0.2	0.0	0.0	0.0
General balance	-13.1	-13.9	-20.5	-18.0	-10.5	-7.5
Financing	13.1	13.9	20.5	18.0	10.5	7.5
Including:						
Change in official currency reserves	-0.8	-3.3	4.1	0.5	-4.0	-2.0
Other	13.9	17.2	16.4	17.5	14.5	9.5

**Estimated, **Predicted*

Approximate Ratio of Volumes of GDP of the 15 Most Developed Countries of the World in the Year 2030

Key: Top to bottom: China; USA; Japan; India; FRG [Federative Republic of Germany]; Indonesia; France; Italy; South Korea; Brazil; Taiwan; Thailand; Great Britain; Canada; Russia.

*Pension Fund Chief on Need for Social Protection

954E0729A Moscow RABOCHAYA TRIBUNA in Russian 18 Mar 95 p 1, 2

[Interview with Arkadiy Konstantinovich Solovyev, chief of administration for the Pension Fund of the Russian Federation, by RABOCHAYA TRIBUNA correspondent Arkadiy Chereshnya: "Neither Swedish Style Nor Turkish Style—*A Question for Elaboration—What Kind of a State are We Building?*"]

[FBIS Translated Text] *Who will answer it—President B. Yeltsin, Premier V. Chernomyrdin, State Duma Chairman I. Rybkin, Federation Council Chairman V. Shumeyko, or RSPP President A. Volskiy? Or perhaps the father of restructuring, President of the USSR M. Gorbachev? We are asking a more than idle question—vitally important to the Russian nation:*

To pay socialist style, or not to pay capitalist style?

Over the years of restructuring and reform we have lost much of what was considered by rights the primary foundation of our existence: the state itself within its historical boundaries, the political order, the system of a planned economy, a unity of world view. Some like that, by the way. Almost all, on the other hand, complain in concert about the loss of the social guarantees—if paltry, they really did exist. They sigh about the once almost-free kindergartens, Pioneer camps, sanatoria and rest homes, the hospitals and higher educational institutions. Material support for the social sphere in a "public" state is accomplished through so-called social consumption funds...

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Arkadiy Solovyev, the chief of administration for the Pension Fund of the Russian Federation, reflects in a conversation with our correspondent on the consequences to which the disappearance of these funds has led, not only in government statistics but in real life.

[Chereshnya] Arkadiy Konstantinovich, Govorukhiy has been complaining about the "Russia we have lost," and you, pardon the incongruity of the comparison, about the lost social consumption funds. Do you mean to say that this loss is the bitterest of our losses?

[Solovyev] It is not all that simple. The former regime can be reproached for many grave sins, but you will not deny the consistency and, if you will, the distinct ideological content of its actions. Yes, labor was cheap—each worker did not receive more than 8—12 kopecks from each ruble earned. Horrible? Robbery? Don't jump to conclusions. The Bolsheviks, after all, felt that the principal portion of added value should be received not by the specific worker, but rather by the socialist state, which then redistributed the funds in conformity with its notions of social utility. Whence the conscious principle of reducing the proportionate share of wages and increasing the role of the social consumption funds (OFP).

[Chereshnya] Reveal the secret for the uninitiated reader: what was the economic essence of these universally known funds?

[Solovyev] Roughly speaking, they were that portion of the social product—that is, the entire amount of goods and services produced by a specific worker—that was to go for the maintenance of the existence of him himself and the members of his family. It was considered to be too bourgeois or something to pay the worker the entire amount of money he earned. He thus received funds in the form of wages, to simplify it to the utmost, just for food, clothing, housing and municipal services. The money for health care, education, vacations (sanatoria, rest homes, tourist camps etc.), culture and leisure, the upkeep of the elderly, invalids, children and the like, as it were, moved through an additional channel, from the OFPs, where the funds taken from all workers in compulsory fashion were concentrated. And those funds represent, in an economic sense, the principal share of the wages that were not given in full, not paid in full, to the workers for the many decades of their working lives.

[Chereshnya] What was the ratio of wages and OFPs?

[Solovyev] The ratio was highly variable, but the share of the OFP grew considerably faster than the share of wages over the period from 1940 to 1990; in 1990 the consumption funds were around a third of the gross domestic product, and wages about half. That is a very considerable sum.

[Chereshnya] And you want to convince us that all of those gigantic sums went exclusively for the social development of you and me, and nothing ended up in the personal feed troughs of the bosses?

[Solovyev] The *nomenklatura* elite lived pretty comfortably, and possibly dipped into the OFPs. But they provided a tolerable existence for rank-and-file citizens.

[Chereshnya] Don't exaggerate, Arkadiy Konstantinovich, it was sooner a very meager and quite cheerless life.

[Solovyev] Perhaps. But don't forget that the payments from the OFPs in 1990 comprised half of the average statistical wage, or about 800 rubles. This was a pretty good counterbalance for the consumer budget of the citizen, far from living in luxury, at that scale of prices. And we were unexpectedly deprived of all of that.

[Chereshnya] What do you have in mind?

[Solovyev] The social consumption funds (OFPs) just plain disappeared from government statistics, basic financial documents, from everywhere right from the first months of reforms... They departed this life, so to speak, they simply were no more.

[Chereshnya] Excuse me, but where could kindergartens and clubs, sanatoria and retirement homes—in short, everything through which the OFPs received their material incarnation—have evaporated to?

[Solovyev] Most of them were illegally privatized. Illegally, because those facilities were not subject to privatization under any government program. This is a universal scandal: even the most zealous champions of reform understood perfectly well that they could not declare openly the transfer of an enormous number of social institutions, built at the expense of the compulsory taking of a portion of the wages of all able-bodied citizens, into a few private hands.

[Chereshnya] Well, OK, we will hope that they will all answer someday for the fact that our blue-eyed petty thieves carried off the OFPs, somebody, sometime. But the specter of communism is not now wandering Europe, that is all in the past. What does the new Russia, clearly not socialist, need with these OFPs? They remain nowhere today, except perhaps Cuba or North Korea. And the standard of living there is all too well known.

[Solovyev] You are mistaken. Such funds also exist in countries with a market-socialist economy—the Scandinavian and some others. And those states, by the way, are infinitely far from the "proletarian paradise" that raged here for many long decades.

[Chereshnya] Curious... From what are those funds created?

[Solovyev] From taxes—they are very high in Sweden and Norway. Some of the tax payments go for social consumption, it is all regulated by the state. It does not exist in the United States, and the price of manpower is high there.

[Chereshnya] If I understand you correctly, a high level of worker pay makes it possible remove the problem of the OFPs to a certain extent?

[Solovyev] Yes, undoubtedly. Either the worker receives everything he needs not just for the body, but also for the "mind," from wages, with a high cost of manpower, as in

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the United States, where they have a special law on the hourly wage, or an OFP (or something like it) is created where a portion of the unpaid wages is directed and knowingly distributed by the state for social purposes. There is, as they say, no other way.

[Chereshnya] And what do we have here?

[Solovyev] Unconcealed robbery. Before (in any case somewhere in the 1980s) the wage fund was about half of the gross domestic product, and the OFPs were another quarter (roughly 75 percent together). Now the wage fund barely makes a third, and the OFPs have been destroyed; consequently, the level of consumption in Russia overall has dropped by almost three times.

[Chereshnya] That means the mistake of the reformers was...

[Solovyev] It was not a mistake, it was a program policy, a conscious and dedicated principle.

[Chereshnya] What for? To exterminate the people? I doubt it. And just who was it that generated this ill-starred dedicated principle: a "world conspiracy," the CIA, the IMF, some major domestic banks? Who?!

[Solovyev] I don't know. Perhaps no one specifically. It is a different issue. Every reform has a price that has to be paid for it. Who, strictly speaking, should pay, the international banks, our state, the new segment of domestic entrepreneurs—that is the question. It was resolved amazingly simply: the Russian *muzhik* paid for everything—with the loss of former housing and social guarantees, and a sharp drop in the level of consumption...

[Chereshnya] If I understand you correctly, the sense of this program principle is to abolish all social guarantees as the most important duty of the state in relation to civil society?

[Solovyev] Yes, indeed so. The old socialist system had many shortcomings, but some of the ideas were correct. The fact, for instance, that the state, aside from the defense and economic functions, has a social function as well: to take care of the elderly and the poorly off, to provide an opportunity to make use of social institutions for a minimal fee. It is ultimately we, *i.e.* the able-bodied population, who pay taxes and reconcile ourselves to the compulsory taking of a considerable portion of our pay for all of this.

[Chereshnya] So then what, we should return to the "joyous house" of socialism, pursue nationalization and set up military field courts for the "new Russians"?

[Solovyev] We cannot go back. But it is immoral to reconcile ourselves to the existing situation, since it glaringly contradicts the present Constitution. Article 7 of the Fundamental Law of Russia says that we are building a "social state." It does not really, pardon the expression, smell like it. There are beautiful words, but not real economic filling: OFPs, cheap consumer credit. There is nothing. The situation is simply tragic. Whereas in 1990 the share of spending on social needs was 35 percent of the state budget, today that needle flutters around 17 percent. Add to everything else the terribly high cost of the overwhelming majority of social services, and the burden of of additional payments for pension support out of our wages, which used to come out of the OFPs. What kind of a social state is that...

[Chereshnya] Aren't you overdramatizing it?

[Solovyev] No. It is important to understand a simple thing—there should be social guarantees in any state. They are one thing—the OFPs—in a socialist states, and something else in a market state—high wages, a system of insurance for all of life's eventualities...

[Chereshnya] But there even seem to be social benefits in the United States for the poorly off, or those simply not wishing to work—the so-called "welfare"?

[Solovyev] True. Even in the classic "market" countries, where the price of manpower is very high, there are programs of social assistance, albeit not very large. But we have total disarray. We have moved away from the socialist model, and the OFPs have been eliminated.

[Chereshnya] But where, incidentally, is the money in underpaid wages to workers that used go to the OFPs going today?

[Solovyev] To maintain the individual sectors, to maintain the army, the state apparatus, some of it goes to the West... So then, we have moved away from the socialist system of consumption but have not reached a market system, have not even tried to. A total dead end and ruinous social policies as a result...

[Chereshnya] How are we to get out of the dead end?

[Solovyev] We have to decide, first of all, what kind of state we are building. If it is a strictly capitalist and market state, then we have to make one model of social support, and if it is a social-democratic state, then a largely different one (OFPs, progressive taxation, the equitable redistribution of material benefits).

[Chereshnya] But now, if I understand you correctly, we are not moving forward toward capitalism, or not even back toward socialism, but rather somewhere off to the side, to some particular type of barbarian state, as it were?

[Solovyev] Something like that.

[Chereshnya] Well then, what kind of system do you prefer personally?

[Solovyev] I am an economist, and I look dispassionately at things; both systems have their strong points and drawbacks. But they are both better than the complete absence of one, and that is exactly what we are seeing in Russia today.

[Chereshnya] Let's clarify a little bit. Say someone tried to institute a market model of social support in Russia today. The price of manpower would have to be raised sharply for that purpose, after all, a multitude of insurance deductions would have to made from wages, such as pensions, vacation funds, leisure, cultural development of the nation... Is that feasible?

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[Solovyev] Hardly, we do not even have the money to raise wages. And at today's paltry wages we could withhold only a deduction for the Pension Fund, and nothing more.

[Chereshnya] So, forward to the equality of all in proletarian poverty?

[Solovyev] Not at all. That is the spent steam of history. There is much better experience in the building of a socialist state: Sweden, Norway, partly Canada.

[Chereshnya] And what does that mean in practice?

[Solovyev] The restoration in updated form of the OFPs, a sharp change of tax legislation in favor of the poorly off, an increase in the share of spending on social needs to 30-35 percent of the state budget, state financing of loans from commercial banks for cheap consumer credit, and much more.

[Chereshnya] Where will the money that is not in the budget come from?

[Solovyev] We have thousands of trained specialists at the Ministry of Economics and Ministry of Finance; they are obligated to a method of distributing national income that would, roughly speaking, be able to take care of everything—and primarily social needs. If we do not take resolute steps in that direction, the social situation will become unmanageable in the next few years.

*New Point of View on Tax Legislation Urged

954E0749A Moscow DELOVOY MIR in Russian No 10, 13-19 Mar 95 p 19

[Article by Ye. Sapilov, candidate of economic sciences, Economic Institute of the Russian Academy of Sciences: "Russian Tax Legislation for Russia"]

[FBIS Translated Text]**"It is commonly recognized that the tax system operating in Russia is firmly established, ineffective, and cumbersome" (from the annual report of the Chamber of Trade and Industry of the Russian Federation, DELOVOY MIR, No 1, 1995, page 26). It is hopeless to try to reform it. A radically new system is needed—not a western one, but our own Russian system, because we live in Russia, not in the West. They have a market, but we are still "moving toward" a market and we don't know when we will get there. Their economy is stable while ours is in a state of crisis. It is too early for us to emulate the West.**

The tax system, first of all, must ensure a reliable influx of funds in the revenue portion of the budget. For that purpose a stable base is required for computing the tax. Enterprise profits and added value under conditions created by an unevenly functioning economy in a state of crisis are so variable that they are absolutely unusable as base tax forming indexes. This is indicated in practice where, for instance, a significant difference exists (up to 40 percent) between predicted tax revenues, as incorporated in the budget, and the amount of tax revenues actually received.

Law From the Mud is not Firm

In accordance with the Russian Constitution the state budget and its revenue articles (value added tax and profits tax) are law. There is a paradox however, where fulfillment of these articles is not guaranteed by law. The law merely establishes the deduction norm and not the absolute amount of these taxes for each subject of taxation, the sum of which would equal figures stipulated for the corresponding article of the budget. Under conditions created by a drop in production and the resulting decrease in added value and profits, a shortfall in payments into the budget becomes a constant factor and a primary cause of the deficit. Existing tax legislation, however, does not provide for any responsibility for nonfulfillment of the budget revenue articles for that reason. If there are no profits (production does not sell) there is no tax and if there is no added value (the plant is idle) there is no tax. In this case owners of the plant are exempt from payments into the budget in accordance with the law. They pay nothing and are not held liable. The fact that the budget is unfulfilled is a concern of the government and not of the owners and entrepreneurs since the law relieves them of such concerns.

For the purpose of discussion it is possible to propose the following variant of conceptual taxation formulas as specific forms of relations between the state and subjects of entrepreneurial activity.

In our opinion, in the situation that has formed only two parameters form a reliable base for calculation of the tax: payment for the right to engage in entrepreneurial activity (for licenses) and the size of the capital (fixed assets and working capital). The first parameter is established as a norm and is unchangeable, while the second one is sufficiently stable and is subject to accounting. The tendency to conceal the actual amount of capital may be eliminated, for instance, by a progressive profits tax based on the index "amount of profit on capital in percent."

Payment for a license and tax on capital as components of tax revenue fixed for the fiscal year must lend the tax system rigidity and stability. Therefore their share of the overall amount of tax on entrepreneurial activity must be the prevalent one—up to three-fourths or more of that sum—while the profits tax is not excluded but assumes a second-place position.

A License in Favor of the Region

The high annual license fee (it must comprise 10-15 percent of the tax) has not only a fiscal but a controlling significance; it is a criterion of the seriousness and effectiveness of the intentions of entrepreneurs and collectives in the forthcoming and subsequent years. It does not increase the overall amount of the tax but merely alters its structure and, consequently, will not cause financial difficulties in the realization of such intentions. On the contrary, a paid license will promote harder work in order to pay for the overhead expenses.

Considerable variation in the type of production and trading enterprises and brokerage and financial organizations, and differences in the scale and external conditions

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of entrepreneurial activity presuppose a wide range of payments for licenses. The creation of a unified rate scale of license fees is essentially a solvable task and experience in that is available in Russia. The question is merely one of time, funds, and organization of work.

It is, however, not desirable to establish such a rate scale inasmuch as like any government norm it will limit the economic independence of the regions.

In our opinion it would be feasible to grant the right to establish license fees to representative organs of republics and oblasts and leave the funds derived from license fees at the disposal of the heads of their administrations.

In such a situation regional authorities would have a highly effective means of controlling and influencing entrepreneurial activity, altering its structure in the interests of the territories, while supplementing regional budgets. Varying the amount of the license fee depending on the socioeconomic circumstances with consideration for developmental prospects of the localities makes it possible to expand entrepreneurial activity favorable for the territories while eliminating those structures which are useless or harmful to them.

Elaboration and adoption of territorial (oblast and republic) license fees can be carried out in two stages. In the first stage it is necessary to set fees on the basis of an agreement between the administration and entrepreneurs for a period, let us say, of three years, with stipulation that they may be adjusted only upon mutual agreement. In the second stage it is necessary to establish them as a long-term unchangeable norm for a period of 10 years or longer with the sole provision that they may be adjusted for inflation.

Such an approach will allow gradual introduction of the optimal variant of a license fee and the combining of desired interests of territories with the possibilities and aspiration of the individual entrepreneurs in those territories.

It is Best To Declare Capital Honestly

Tax on capital on the basis of a standard norm is established for the forthcoming fiscal year for each taxpayer by the local departments of the State Tax Service of Russia. It is subject to quarterly payment in equal shares, naturally, regardless of the amount of profit that is earned.

This regulation is of fundamental significance and therefore requires additional substantiation.

The norm for calculating tax on capital is a state norm expressing requirements pertaining to national economic effectiveness of its turnover. It compels the conduct of entrepreneurial activity with that minimum profit level which, like a tax, is legislatively deemed as necessary for financing the budgetary sphere. If such profit is not obtained, the entrepreneur is obligated to pay the tax with borrowed funds, otherwise the tax amounts are subject to deduction from his account for non-acceptance.

With such a scheme, calculating the tax and payments into the budget are determined, for the most part, not by spontaneously obtained profit resulting from entrepreneurial activity but by the needs of the state budget. The "underpayment" into the budget will be eliminated.

The circumstance that tax on capital, realizing the principle "equal taxation for equal capital," will practically eliminate as negative a phenomenon as tax parasitism when nonpayments into the budget of some is covered by high taxes imposed on others, is an important factor.

Preliminary approximate calculations based on available statistical data indicate that in order to fulfill revenue articles of the state budget, it will be necessary to establish a tax on capital in an amount of 4-6 percent per year, naturally, with repeal of tax on added value and a substantive decrease in the profits tax. This is a moderate tax in accordance with the taxation scheme being proposed.

The profits tax must perform leveling functions inasmuch as the amount of profits depends not so much on the size of the capital as on the rate of its turnover. The most suitable index for computing profits tax tested in Russia is the index reflecting "ratio of net profit to capital in percent." Its advantage lies in the simplicity and integrated nature: there is no need to subdivide capital by type (industrial, trade, financial) or introduce coefficients, corrections, or other such changes in the method of computing the tax which can merely introduce confusion and cause disputes.

At present information on the size of the capital and profit that is earned is regarded as a trade secret. Therefore it is difficult to construct a working scale for computation of the profits tax. Nevertheless it is possible to propose the following preliminary variant of a scale on the basis of an evaluation of average statistical data:

Ratio of net profit to capital (percent)	Profits tax (in percent)
Up to 5	None
5 to 10	2.0
10 to 20	5.0
20 to 30	10.0

We have gained unique experience in how not to conduct economic transformations. Haste, administrative monopoly, and lack of variety in the drafts are the main reasons for failure and disappointment.

Temporary Tax Government

What must we do to avoid "business as usual?"

First of all it is necessary to adopt a government decision stipulating there will be tax reform, to create a Temporary Committee for Tax Reform, and to finance the entire complex of work involved in preparing new tax legislation (code) within the next three to four years.

The temporary committee on tax reform will have to plan and defend, on a competitive basis in the government, the concept of the tax reform. Based on that, the committee will have to plan and fulfill a government program "Tax Reform in the Russian Federation" and submit and defend

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a draft of the tax code in the government. After its adoption by legislative organs, the committee is to be disbanded.

This organizational-technical scheme for preparing major drafts has been worked out in practice, and there is no need to analyze it. Let us dwell on some of the methodological questions.

A rigid budget policy requires rigid tax rules. Therefore articles of the law on taxes must be direct acting. It is important not to allow errors of past years to occur when, after adoption of a law, its articles "spawned" such a large number of lawful and unlawful regulations and instructions that its requirements ceased being the rule and, on the country, became the exception.

Articles of a law undoubtedly need instructional documents on their fulfillment, but these documents must be worked out together with the draft of articles of that law and adopted by the law as a component part of the corresponding article.

The task of the committee on tax reform consists of ensuring that the future tax code represents an integrated system of economic, legal, and ethical norms and rules of entrepreneurial activity and contains laws and instructions in a single "summary" which once and for all establishes the structure of taxes, the contingent of taxpayers, norms for computing taxes, and an administrative and legal mechanism for their collection.

The temporary committee on tax reform, as accepted, must consist of the collegium and a small executive apparatus. We also believe it is feasible to supplement it with a supervisory council with the right to control finances and review the decisions of the collegium and their appeal.

The supervisory council includes representatives of government, public, and entrepreneurial organizations which finance work in accordance with the tax reform program. The committee on tax reform will represent the interests of various categories of taxpayers, and based on coordinated agreements it will directly participate in elaborating legislative and normative documents, thereby excluding the subsequent stage of their "coordination." The right to control and protest decisions will allow the supervisory council to oppose administrative monopoly of the committee collegium and thereby balance its powers.

The best and most optimal variant of any draft is the one which is created on a competitive basis. The supervisory council, as part of the committee on tax reform, is objectively becoming a guarantor of the elaboration of new tax legislation specifically on such a basis. The point here is not the rights of the council but its duties. Representing cooperative interests of organizations financing the preparation of tax reform, members of the supervisory council will invariably demand the inclusion of these interests in the tax code and the examination of their proposals and substantiation in case of refusal. The very presentation of such demands will stimulate the search for multiple resolutions on a competitive basis.

A Clear-Cut Tax System is a Social Order

Hence it is correct to propose that the entrepreneurial organizations assume the bulk of expenditures involved in the preparation and conduct of the tax reform. This is not an act of charity, not a sponsorship contribution, but a shared participation in the elaboration of a mutually acceptable draft of the law on taxation. Thus the preparation of a tax code becomes not only a government but also an entrepreneurial order, which really means the direct participation of entrepreneurial organizations in lawmaking activity, in the legislative initiative of the government.

Practice will indicate the degree to which the goal justifies the expenditures.

*Allocation of State Subsidies to Media Debated

954E0809A Moscow KOMMERSANT-DAILY in Russian 24 Mar 95 p 3

[Article by Natalya Arkhangelskaya under the rubric "Economics and Politics": "The Russian Press Between a Rock and a Hard Place: Concerning the Problem of Press Subsidies"]

[FBIS Translated Text] **Today the State Duma will turn again to examining the draft law "On State Support of the SMI [mass information media]." The fact that the budget for the current year deprives most press publications of state subsidies and only tax breaks included in the law could save the press makes this especially timely. However, salvation may come too late. In the dust of the struggle for the press's favor, politicians interested in it are simply suffocating the love object in their embraces.**

The history of state subsidies began in 1991-1992 when, on the one hand, the state SMI began to be emancipated, and on the other, the liberalization of prices put the survival of publications which were already in existence and those which were being newly created in doubt. Mikhail Poltoranin, minister of press at that time played the role of savior: it was under him that the first subsidies were created. It was assumed that this measure would be a temporary one (for 2-3 years), until all press publications were successfully made into joint stock companies and living "in clover." The process of the formation of joint stock companies and privatization, however, did not go as successfully as one would hope. The budget was certainly in no position to subsidize all who wanted it, however, and so in 1994 only 216 of roughly 10,000 publications received assistance.

As practice shows, subsidies are in fact distributed by the minister of press, whose personal or political partialities are supposed to be watched by a special Public Council consisting of very respected and well known persons. In principle it may influence the minister's decisions—if it abandons all its own business and sits down to study conditions in all 10,000 publications, but that is unlikely. Consequently, the apparat and its manager have the last word all the same. This is also the source of the heightened interest in this job: four ministers of press have been replaced during a short period of time. The "chair" in which the present one, Sergey Gryzunov, sits is constantly shaking.

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Today it is precisely the chairman of the Duma committee on information policy who is Gryzunov's main opponent, judging from the polemics which have developed between him and Poltoranin's favorite child ROSSIYSKAYA GAZETA [RG]. The matter has already reached the courts: Gryzunov has sued RG for offending his honor and dignity.

The logic of the political struggle has miraculously turned Mr. Poltoranin, formerly a very close comrade of the president and founder of the system of state subsidies, into the main fighter against them and at the same time against the minister of press (presently the president's advocate). The Duma committee which Poltoranin heads reduced the subsidies totaling 237 billion rubles [R] which Gryzunov petitioned for in the draft budget to R89 billion, and only four state publications will receive something from this money (RG, ROSSIYSKIYE VESTI, and the journals RODINA and ROSSIYSKAYA FEDERATSIYA). These four account for R35 billion, while the rest will go to publications for blind people, children, and other socially significant categories.

"Poltoranin is against subsidies because he does not distribute them," one of the members of his committee said in a confidential conversation with the KOMMERSANT-DAILY correspondent. But at the same time, the committee—from the "Gaydar-ites" to the communists—has been practically unanimous in advocating abolishing the subsidies. Everyone considers this system foolish and depraved, and it is difficult not to agree, for the press is a business for profit throughout the entire world. But before sending the press to swim free, it had to be offered tax breaks (this is altogether common in world practice). Notably to abolish the 20 percent value-added tax. The total benefit from the tax breaks (R200 billion) would be roughly equal to the amount of subsidies requested, incidentally.

But then the "hand that distributes" loses all sense and, consequently, influence too. It is therefore not surprising that the law "On State Support of the SMI" which contained both tax breaks and the long-awaited scheme for privatization of the SMI in the draft was rejected by the Council of the Federation. And as people in-the-know claim, not without serious efforts on the part of the executive branch of power, notably Roskompechat [Russian Committee for Press]. The idea of creating a national fund for development of the SMI made the opponents of the draft law suspicious; they assumed that Poltoranin was preparing it "for himself." And in order to block the fund's creation, they smashed the entire law along with the tax benefits and privatization. In light of that, the "Poltoranin-ites'" recent abolition of subsidies can certainly be considered a retaliatory strike. True, the deputies, carried away with the struggle against the "Gryzkom," (that is what the members of the Duma committee call Roskompechat among themselves), are hitting the press too. In the new version of the draft law which is to be submitted for the Duma to examine today, the section on the "Poltoranin" fund which most of the deputies dislike is missing. That is to say, the draft has a chance of being adopted. However, even if it is approved immediately on the third reading, press publications will still be unable to take advantage of the tax breaks this year, since their taxes have already been included in the income part of the budget.

The most interesting thing in this story is that Poltoranin and Gryzunov, though vying with one another, seem to be acting under the same banner: to make the SMI independent of the state. However, the principles of the logic of their claims go in completely opposite directions. Out of fairness we should mention that in the conflict the executive branch of power is behaving with more restraint (in its statements). Thus, Gryzunov still does not allow himself (as RG does in relation to him) to label his opponent as a thief and does not use such a strange phrase as Poltoranin's "camp Hebrew language." Yes, Gryzunov gave subsidies to publications which are ideologically close to him. But even Poltoranin is favorably disposed toward RG. And RG, which is still not poor and was converted to a closed-type joint stock company back last year, received R25 billion in subsidies from a total of R72 billion through precisely his efforts. This usually brings up this argument: RG is a state publication and was founded by the government, and it must print official documents, which others do not do. One can object, it is true: a state publication should not be commercial, and it should not be involved in politics or selective criticism of individual politicians.

There are still certain additional conceptual differences in Gryzunov's and Poltoranin's views of the future of the press. They affect the model of privatization of the SMI. The Poltoranin committee's law "On State Support..." proposes a model whereby the lion's share of the stock is transferred free of charge into the hands of the journalist collective. Gryzunov has his own version, one not as populist: only 3-5 percent of the stock is transferred to journalists, while the rest is sold in large blocks to private owners. He evidently was figuring that only a real owner, but not a labor collective, can provide effective management, as world practice confirms. Possibly this is precisely the nuance, one which is already on the verge of class rather than personal contradictions, that has moved the two politicians overseeing the press so far apart.

*Edict on Creation of Free Economic Zone Viewed

954E0809B Moscow KOMMERSANT-DAILY in Russian 24 Mar 95 p 2

[Article by Marat Salimov under the rubric "What Has Been Decided and What Is Being Decided": "Free Economic Zones in Russia: The President Continues To Use His Own Decisions To Create Zones and Benefits"]

[FBIS Translated Text] After the recent edict abolishing all foreign economic benefits, the president decided to create yet another free economic zone. By the edict "On the Free Economic Zone 'Kabardino-Balkaria,'" the territory of the entire republic is assigned the status of FEZ [free economic zone]. This is very reminiscent of the decisions adopted in 1990-1991 when 12 FEZ's were created at once on the threshold of the presidential elections. In reality not all of these FEZ's began to operate and therefore they lost all their privileges.

While the draft law "On Free Economic Zones" wanders around in Gosduma commissions and committees, the

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president has decided to resort to a tried and true method of increasing his prestige in the regions. After a favored economic zone was formed on Igushetia's territory, it was proposed to establish a special economic regime on the territory of Kabardino-Balkaria as well. Unlike Ingushetia, which was merely exempted from paying federal taxes, Kabardino-Balkaria can also count on foreign economic benefits. The edict does not specifically define these benefits, but the republic's cabinet of ministers has been charged with preparing a draft proposal on a free economic zone and a draft program for its development and presenting them to the RF government for approval within 3 months time. In this connection, it is interesting how much the forthcoming governmental decision on the FEZ "Kabardino-Balkaria" as well as the presidential edict already signed correlate with the draft law "On Free Economic Zones."

In accordance with the draft, FEZ's being created on Russia's territory should receive tax and customs breaks; otherwise they lose any attractiveness to investors. FEZ's are treated as a part (up to several square kilometers) of Russia's customs territory in whose boundaries preferential tax, customs, and hard currency (allowing account settlements in hard currency) regimes are established.

Thus, granting the entire republic the status of a FEZ clearly contradicts the provisions of the draft law. So it is altogether likely that in the process of adopting the law, the parliamentarians will have to make fundamental modifications to it. That is what happened, for example, in the case of the "Yantar" FEZ when the law "On the Customs Tariff" deprived all Russian FEZ's of foreign economic benefits, and then an amendment was introduced into the law retaining these benefits for "Yantar."

However, even legislative approval of certain benefits still does not mean that they cannot be taken away at any time. Kaliningrad Oblast can serve as an example. By edict of the president "On Declaring Invalid and Abolishing the Decisions of the RF President in Granting Customs Benefits," it was as a result deprived of its foreign economic privileges. And despite the fact that the oblast administration and the leaders of the FEZ consider the presidential edict to be an unfortunate mistake and the result of discordant actions by the apparats of the president and the government, the benefits have not yet been returned to the oblast.

So regions fighting for privileges under the cover of an FEZ are forced to find their own channels for resolving problems. For example, Nakhodka, which lost all privileges after the law "On the Customs Tariff" went into force, began to rapidly adapt to the new conditions by creating a number of local free customs zones on its territory. This gave it certain foreign economic benefits; moreover, respectable credit was received for the development of these zones. By its own decision, the Ministry of Finance decided to offer Nakhodka a loan in the amount of R302.763 billion for 1995. In reality this loan is granted in the form of an exemption from paying taxes which the region should put into the budget. The loan will be used for the most part to develop energy support, the water supply, and the transportation system and to realize programs which will help Nakhodka attract the interest of domestic and foreign investors. The "Nakhodka" FEZ will pay off the loan over the course of 5 years. But if it is unable to return the money to the Ministry of Finance promptly, the department will charge the credit against real estate, securities, and other property of the administrative committee for administering the "Nakhodka" FEZ.

So, as practice shows, the transformation of FEZ's in Russia continues. And not only are insolvent ones dying, but new zones are being born too. However, their creation and prosperous existence continue to be determined not by legislative enactments but by political decisions.

[Box]

- Stages of Development of Free Economic Zones in Russia
- **1991**: The status of FEZ is granted to nine territories on the scale of oblasts and republics which are part of Russia.
- **1992**: The status of FEZ is granted to another three regions.
- **1993**: All FEZ's lose customs benefits and privileges with the exception of **Kaliningrad Oblast.** The first three **customs zones** are established: "Sheremetyevo," "Moskovskiy Franko-Port" [Moscow FOB Port], and "Franko-Port Terminal" [FOB Port Terminal].
- **1994**: The "Nakhodka" FEZ renounces its status and attempts are made to create local **customs zones** on its territory.
- **In September 1994, local free customs zones"** are created on its territory by the governmental decree "On Certain Measures To Develop the 'Nakhodka' Free Economic Zone."
- **Late 1994**: All Russian regions shift to creating **free customs zones** without waiting for governmental decisions. Work began on developing the "Sherizon" FEZ, the decision was adopted to create a free customs zone in Ulyanovsk, and the mayor of St. Petersburg signed the directive "On Creating the 'Gavan' Free Customs Zone."
- **March 1995**: Kaliningrad Oblast actually lost the status of FEZ with the issuance of the presidential edict "On Declaring Invalid and Abolishing the Decisions of the RF President in Granting Customs Benefits."
- **March 1995**: The Ministry of Finance adopted the decision to grant Nakhodka a loan in the amount of R302.763 billion for 1995 to develop free customs zones.
- **March 1995**: Boris Yeltsin signs the edict "On the 'Kabardino-Balkaria' Free Economic Zone." The edict does not define the conditions for its operation.

*Duma Committee Chairman Questions Pace of Privatization

954E0717A Moscow RABOCHAYA TRIBUNA in Russian 17 Mar 95 pp 3-4

[Interview with Sergey Burkov, chairman of the State Duma Committee on Property, Privatization and Economic Activity, by RABOCHAYA TRIBUNA Correspondent Gennadiy Lyulkin; date and place not given: "We'll Sell Everything but Will We Become Richer?"]

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[FBIS Translated Text] **"The foolish rates of privatization are necessary for the magnates," said Sergey BURKOV, Chairman of the State Duma Committee on Property, Privatization and Economic Activity, to our correspondent in an interview.**

[Lyulkin] RABOCHAYA TRIBUNA has recently published materials in which the course of the fulfillment of the privatization program is analyzed in depth. I have in mind the memoranda of Polevanov and Ilyushenko to the prime minister. How will you comment upon these documents?

[Burkov] Polevanov's position in quite obvious and clear. I would not begin to attach great significance to the political disguise of his statements. Yes, indeeed, he used such expressions as "nationalization." However, a normative base which would regulate, and very strictly, the opportunities for nationalizing specific enterprises, is needed to carry this out. So that it would be precise and clear who is taking the decision, what has caused its adoption, how is the loss to the former owner to be compensated, from what sources, and over what period of time.

This mechanism is lacking today. Not a single sensible politician or economist will pursue nationalization without the appropriate laws. That is why to say that adoption of a law on nationalization means that the Russian economy is turning away from market paths is political myopia and professional illiteracy.

A number of deals regarding privatization have been accomplished in violation of prevailing legislation. Far from all the cases have been cited in the memoranda of course. Polevanov only stated that such a problem exists. But to kick up such a racket on that account?! To accuse him that investments have ceased coming into Russia because of his statements? There's another reason.

Indeed, during recent months the flow of foreign investments has "become shallow" and turned into a rivulet. It is indicated quite rightly in these documents that many Western investments are of a speculative and portfolio nature. What is hidden behind these two words which are more terrifying for Russia's economy than the term "nationalization"? It conceals the fact that we are dealing not with serious, potentially major, investors from the West, who have real money, technology, and ties in financial and business circles, but with third-rate, insignificant, little-known firms who are prepared to buy up everything for a song, by virtue of the fact that property in Russia has been valued at fantastically low prices.

We'll Greet with Bread and Salt, but not Tricksters

Where and in what spheres are foreign investors to be admitted? It's agreed that in the sphere of "small" privatization let them, after all, buy up all our stores. There are enterprises which one should hand over to foreigners with gratitude. And here there should be no restrictions whatever. For example, light industry enterprises. We have vast capacities, vast raw material sources. Take Ivanovo alone! Let them buy, let them privatize.

The defense complex or, let's assume, oil refining are another matter. State participation is necessary there. And very strong, real participation and not simply on the level of possessing a bloc of shares. Here it is necessary to examine to what extent one can admit foreigners.

Naturally, there are circles who are interested in crushing Russia economically. Here's an example which was cited in Polevanov's memorandum. I have in mind the interrelations of the Sikorsky company with the helicopter plant imeni M. I. Mil. We were occupied with this already in the beginning of last year. Indeed an attempt had been made to buy up blocs of shares supposedly presented at investment auctions and at money and voucher auctions. Why? They needed to squeeze our producers out of the market and to clear the road for themselves. Which had been done previously with the armaments market.

Speculators Trade at a Bazaar. But in a market?

A significant portion of the new owners are not in a position to provide investments. They don't have them. The fact is that they count on the speculative resale of blocs of shares. Let's take ZIL. It has a very large stockholder in the person of the Mikrodin Joint-Stock Company. Where are Mikrodin's investments? Why did it buy this enterprise?

I can cite a number of more examples. The Kingisepp Production Association Fosforit also has major outside investors. However, the enterprise is on the brink of closing because there are no investments. So where is this new efficient owner about which the State Committee on the Administration of State Property keeps talking about?

A very great temptation arises. To obtain for a song, wait a moment, then raise the selling price of the shares, which happens, and obtain revenues from these speculative operations. When they state that the exchange value of the shares of enterprises is increasing one ought to examine further why it is increasing. That the efficiency of our enterprises has increased ten, a hundred, and a thousand times during this year and a half? Indeed not, of course. We see that the slump in production is continuing and the output of many enterprises, including those that have been privatized, is noncompetitive as usual.

I'm far from thinking that Polevanov was prepared to turn the process back, to swing 180 degrees. No. This cannot be, because we understand perfectly well what the role and function of the market is in Russia. We are indeed marketeers. We indeed talk about the fact that the market is capable of building up the inner strengths of Russia. But today this "wild," uncontrolled market is ruining Russia.

Polevanov has tried to analyze the real results of privatization. And this attempt has not pleased many. He indeed has stood in many people's way. Accusations have been heard that he had decided to subject all that had been done in the course of "privatization," to revision and had decided to turn the "Russian troika" to another road. No, sirs! That wasn't the point.

We must formulate state policy in the sphere of privatization precisely. Proceeding from the market segments, proceeding from regional and sectorial characteristics, we must determine where to admit foreign capital, and perhaps recklessly, and where to severely restrict its access

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and to place it under strict control. As an owner the state ought to behave like a marketeer. If it feels that it is uneconomical and inefficient for it today to keep a given bloc of shares for itself, that it is not able to ensure an influx of investments into a given enterprise, that it cannot provide efficient management, it ought to sell these shares.

On the other hand, if the state sees that its share, let's assume, in an oil and gas complex is diminishing because of the fact that major blocs of stocks are concentrated in the hands of a particular owner, then it ought to immediately enter into the game on the stock market and acquire blocs of shares in order to at least retain the previous control. There are no stable patterns here and a position ought to be very flexible. However, there should be one basic principle: national interests, state interests, the interests of maintaining the economic might of Russia. That's what's most important.

Our position is that privatization is the foundation of a market economy. But privatization, like the market, can be set up in different ways. A cavalry charge on capital and a drastic redistribution of property is one thing. A normal, gradual, stage by stage process is another. Without these foolish rates which are quite unnecesssary for anyone except a number of certain financial structures and magnates. Only then will privatization produce an effect.

A Lamb Led to Slaughter

Among the political reasons for Polevanov's dismissal I would formulate one more. I think that Chechnya has played a role. And has played it rather powerfully. I have in mind the fact that the country's supreme leaders, by introducing troops, evidently indeed expected that they would succeed in establishing order in Chechnya rather quickly. As Grachev declared, in two hours with the help of a paratrooper regiment. Alas, the blitzkrieg has not happened.

And here, in this complex situation, when the ground has begun to tremble under one's feet, when, on the one hand, the support of one's own people is being lost, and, on the other, the West is beginning to cast sidelong glances, Polevanov appears and makes an announcement about nationalization. This was done obviously inopportunely. Polevanov was like a lamb led to slaughter. So that the West would feel that the economic reforms would continue in Russia.

The Efficient Owner—a Mythical Hero

[Lyulkin] The opinion exists that the program of general privatization proposed by Chubays opens the gates to the general colonization of the country. How does your committee judge the results of privatization?

[Burkov] On 9 December of last year the Duma, at the initiative of our committee, passed a decree "On the results of the first stage of the privatization of the state and municipal enterprises of the Russian Federation." Its first paragraph deemed the results of the first stage of privatization in the Russian Federation unsatisfactory.

Unfortunately, privatization has not provoked a desire to work in a new fashion amongst the majority of the population. And those 40 million stockholders, about whom much is being said, are no more than a myth. These are poverty-stricken owners, poverty-stricken stockholders. Poverty-stricken not in terms of their having no revenues and dividends, but that they cannot be owners. Under today's unadjusted system of the participation of stockholders in the activity of joint-stock companies. The joint-stock company management organs have proven to be isolated from the basic mass of stockholders.

The result: the stockholders are not able to control the adoption and implementation of decisions by management organs. The employees of one of the tobacco factories have appealed to me recently. It has turned out that the elementary rights of stockholders are being violated there. The council of directors takes individual decisions which, according to the charter, ought to be taken by the general stockholders' meeting.

In the second paragraph we proposed certain guidelines in the privatization program.

And there was one more very important, for me at least, paragraph. We have proposed to the government the creation of a joint working group to complete work on the program concerning the conducting of the monetary stage of privatization. Such a directive has been signed by Ivan Rybkin on the part of the Duma, there are deputies who have been delegated to work in the group, the premier has supported our proposal and issued the appropriate directive to the State Committee on the Administration of State Property. Today the working group is conducting meetings to examine the proposals of the factions.

Twice Privatized? A Normal Phenomenon!

[Lyulkin] Sergey Vasilyevich, who, in your opinion, should be engaged in uncovering infractions allowed in the process of privatization?

[Burkov] It's not a bad idea to create a commission, having provided it with definite powers, under the aegis of the President so that there wouldn't be any talk that we intend to change the course of the reforms. To include in it representatives of the Control Administration, the Security Council, both chambers of the Federal Assembly, the ministries and departments, the public prosecutor's office, and the arbiration court. In order to understand, if only for the most important enterprises, what we have.

Now it's said that aluminum is no longer ours. Indeed, I have information that today a number of firms, including foreign ones, are controlling elementary things, right up to whom raw material is to be delivered first of all. The question arises: for whose sake have we carried out privatization? For the sake of replacing state control by semi-mafiosi? I think that it's not.

That is why such a commission is necessary. It ought to analyze the real structure of ownership, determine who possesses what, and who determines the flows of finances and goods. To determine for what enterprises deals have been made that violate the law. And to cancel them. But no, it is not simple to return enterprises to the bosom of state ownership. To annul deals and within a very short space of time and in strict conformity with the law to carry out a repeat privatization.

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[Lyulkin] But, Sergey Vasilyevich, what Western bigwig will unceremoniously refuse gains acquired on the cheap. I can imagine what a racket will be raised.

[Burkov] In the first place, the Western bigwig did not have such free access in the first stage of privatization. Secondly, through whom did all these speculative structures operate? Through dummy firms. Will they demonstrate both in Russia and especially in their own country that they operated, in many respects, in circumvention of the laws through second and third firms which, by their financial means, bought up large blocs of checks and participated in check auctions? I'm sure that they won't. They'll keep silent because for them this is speculative, venture, risk capital. And they are psychologically prepared for the fact that this capital will be lost.

I think that in the majority, by 90 percent, Western firms operated in strict conformity with the laws. Look at what legal culture they have, what respect for the law! It is shown in many things. For example, implementation of the Sakhalin-2 project will begin only when the State Duma passes the appropriate law. They are not agreeable to operating on the basis of the President's edicts and the decrees of the government. They feel that these documents do not provide a complete guarantee. They put their trust only in a law. That is why there won't be a great uproar as regarding our supposedly returning to 1917.

It is necessary to conduct parliamentary hearings regarding foreign ownership of Russian. With the participation of all interested parties.

*Commission on Restructure of Debts to Foreign Companies

954E0772A Moscow KOMMERSANT-DAILY in Russian 22 Mar 95 p 3

[Article by Natalya Kalashnikova: "Hope has Begun to Appear Again: And Suddenly They Will Pay!"]

[FBIS Translated Text] **The Commission on the Foreign Debt and Assets of Russia has approved the conditions for the restructuring of indebtedness to foreign exporter firms. The basis of this decision is the declaration of the Russian government, adopted back on 1 October 1994 and then submitted to the creditors in the course of the Madrid session of the IMF. Now, after the lapse of six months the hope of getting back their own has emerged anew for the suppliers of the moribund USSR—the debts to the firms stretch to almost $7 billion. And for Russia—a chance to fortify the somewhat shaken confidence of foreign exporters and investors.**

It is no accident that the government had timed the declaration about the restructuring of the debts to firms which had been suppliers to the USSR to coincide with the Madrid session of the IMF. The intentions were to complete the entire cycle of negotiations with the creditors, with the Paris and London clubs and with foreign exporter firms, already before the end of 1994, having secured at the same time the promise of the IMF to expand Russia's access to its financial resources. Which, unfortunately, has not happened—"black Tuesday," the cabinet shake-ups, Chechnya, the long-drawn-out procedures for adopting the budget (the list of mishaps can be extended).

The essence of the government's declaration was the following. The cabinet has taken upon itself legal responsibility for paying off the debts on short-term contracts for the delivery of goods to the USSR concluded prior to 4 January 1992 and on medium-term contracts signed prior to 31 December 1991. It was proposed to carry out the payments according to the principle of "equal terms to the creditors" (established in Russia's agreement with the Paris Club) through the restructuring of the obligations into promissory notes (veksel). And considering that Russia has already paid some money and some falls under the debts to the "club" creditors, the Ministry of Foreign Economic Relations and Vneshekonombank (Bank for Foreign Economic Activity) should have attended to the adjustment of the amounts of the debt. Moreover, still earlier it had been suggested that the foreign creditor firms unite into clubs of the Paris type—under such an approach the adjustment procedure is standardized. According to the data of the head of the foreign credits and external debt department of the Ministry of Finance, Mikhail Kasyanov, presently already more than 80 percent of the foreign firms having financial claims on Moscow have been united into regional clubs—for example, in Germany, Japan, Italy, Great Britian, Austria and Finland. The mechanism established in the declaration for the activities of the government is that the Ministry of Finance is authorized to issue promissory notes to the creditors, which it is proposed to issue in various series—depending on the time periods for the paying-off of the debt.

Now, when the cabinet has confirmed this, its "Madrid" declaration, the dialog with the supplier firms can begin already in May, i.e., after the negotiations with the Paris Club (which not only is first, but also defines the principle of agreement with Russia's other creditors).

In the Ministry of Finance they do not at all rule out that in the present situation—that is, after the conclusion of an agreement with the IMF and the approval of the federal budget—one will succeed before the end of the year in resolving the entire complex of problems related to the long-term restructuring of the former Soviet debt (i.e., to realize that which did not happen at the end of 1994). Thus, vice premier Oleg Davydov thinks that in the negotiations with the Paris Club one can raise the question of "long-term restructuring for a period of no less than 25 years." Preliminary talks have indicated that "such a formula should suit" the creditors. In other words, one will be able to defer payments on the enormous Russian debt at one go, having established certain maximum payment ceilings and having avoided exhausting annual negotiations at the same time. The scheme, undoubtedly, is convenient, although even here it has its own "but." The fact is that one also must pay for the "restructuring" itself and for so long (for 25 years)—considerable amounts can accumulate. And, evidently, the experts will have to rack their brains.

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*Duma To Discuss Draft Law on State Pension Funds

954E0771A Moscow KOMMERSANT-DAILY in Russian 22 Mar 95 p 2

[Article by Marina Belaya: "Draft Law on Non-State Pension Funds: The State Finds a New Funding Source"]

[FBIS Translated Text] Today the State Duma agenda includes consideration on a first reading of a draft law submitted by the Duma's Committee on Labor and Social Support entitled "On State Pension Funds." This would seem to be the event so long awaited by non-state pension funds, since for almost three years (since the appearance of the first pension funds) they have existed in a legal vacuum. The only presidential edict defining their operations, Edict No 1077 "On Non-State Pension Funds," ignored many aspects of non-state pension fund operations. However, in its current form the draft law has drawn sharp criticism from fund representatives, who point out that the draft counts on using private pension money to fund state investment programs.

A draft law on non-state pension funds has been on the drawing board for two and a half years, since Presidential Edict No 1077 was issued in September 1992. Development of these drafts has given rise to very heated discussions, and it was only about one month ago that the Duma received for its consideration a draft that is more or less agreed upon by the various groups affected and has the support of a majority of representatives of existing funds.

A new round of discussions began after the Duma's Committee on Labor and Social Support, headed by Sergey Kalashnikov, prepared a final version of the draft for submission to a plenary session of the Duma. Fund representatives are unhappy with virtually all the committee's changes in the original draft. Specifically, now the draft provides for establishment of a unified reserve for non-state pension funds to which those funds would be required to transfer 20 percent of their assets. The creation of such a reserve would not be remarkable in and of itself, but according to the draft the reserve would be managed by the State Association of Non-State Pension Funds. According to Paragraph 3, Article 18, of the draft, "funds in the unified reserve fund shall for reasons of diversification be transferred to the State Association of Non-State Pension Funds for a limited time for management by the association's member funds which have the highest rate of return, with profits to be distributed among the member funds in proportion to their respective contributions."

What kind of association is this? According to Article 36 of the draft, the association is a voluntary, self-regulating organization with state participation, created for the purpose of protecting the rights and interests of those who participate or invest in pension funds. Fifty-one percent of the votes in the association belong to the Pension Funds Inspectorate. Thus the association's status is not fully clear. The association is a voluntary organization, but failure to participate in it will mean being excluded from management of the reserve fund. Furthermore, the status of a state organization that redistributes funds among participants in a market economy is not at all clear. As for the funds that do not become association members, their fate is quite clear. It does not appear possible to survive in the face of this kind of competition.

It is noteworthy that in the final draft the functions of the Non-State Pension Funds Inspectorate are also vague, and on that point the draft has been the target of criticism not only by representatives of private funds, but also by the Ministry of Social Protection. In the opinion of Viktor Dubrovskiy, head of the ministry's Pension Support Administration, if the inspectorate's powers do include management of pension fund assets (even if exercised through some "state association"), then it will be transformed from an institution designed to provide state supervision of pension funds into a participant in the market, managing 70 percent of the assets of the remaining market participants and with virtually unlimited rights to destroy its competitors.

However, the greatest dissatisfaction among fund representatives is not over the draft passage establishing a reserve fund, but over the requirement that the funds' money be used to finance state investment projects. According to paragraphs 2 and 3, Article 18, of the draft, "the statute on placement of pension fund assets must stipulate that funds will place at least 50 percent of their pension assets in investment projects which have state guarantees in one form or another. The list of state-guaranteed investment projects will be drawn up by the Government of the Russian Federation and announced by the State Association of Non-State Pension Funds." The state's interest in attracting private funds to finance its own programs is quite natural, but it is perfectly clear that under the conditions specific to Russia state-guaranteed investment projects are by no means the most secure and profitable places to invest pension fund assets.

According to the pension funds, the bottom line is that the draft proposes to leave (after creation of the reserve fund and investment in state programs) only 30 percent of their assets under their direct control. In their opinion this not only will deny them any hope of operating profitably, but will in principle be contrary to the investors' property interests. It is noteworthy that the revised draft law must, in the opinion of Mikhail Drel, a member of the Russian Federation Government Council of Experts, be approved by the Ministry of Justice, as it will affect citizens' property interests.

In any event, critics of the new draft law find themselves in a very unfavorable situation. The idea of using private pension funds to finance state expenditures did not just happen to come up now. Faced with a fiscal crisis, the state is simply forced to seek out this sort of non-traditional funding source. It should be noted that if the current version of the draft is rejected by the Duma, next in line is another version of the same draft law, this one prepared by the Duma's Budget, Taxes, Banks and Finance Committee. Under that version, 70 percent of the assets received by non-state pension funds and insurance companies from pension and insurance contributions must be invested in state-issued securities. That document is not

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yet on the State Duma agenda, but if it is considered it stands a good chance of being approved due to the tempting amount of additional budget revenue (R2.0-2.5 trillion) its sponsors promise.

*Northwestern Customs Officers Arrested for Bribery

954E0787B Moscow KOMMERSANT-DAILY in Russian 23 Mar 95 p 14

[Unattributed article: "Customs Officials Receive Second Salary From Contrabandists"]

[FBIS Translated Text] **On 21 March, associates of the Regional Administration to Combat Organized Crime (RUOP) of the St. Petersburg GUVD [Internal Affairs Main Administration] detained three associates of the Northwestern Customs Administration. Among them were the deputy chief of the NWCA [Northwestern Customs Administration], Vladimir Solntsev, and department head Aleksandr Tkachev. The customs officials are incriminated in accepting bribes in the sum of $300,000. As confirmed by the State Customs Committee of Russia (GTK), the militia operation became the result of an official investigation performed by the customs security service. Up until the present time, no customs officials of such high rank had been caught taking bribes.**

As reported in the St. Petersburg GUVD press service, on the evening of 21 March RUOP officers detained the deputy chief of the local customs administration, Vladimir Solntsev, department head Aleksey Tkachev, and former associate of the Baltic customs office, Vitaliy Khodchenko. Moreover, Solntsev was taken into custody in the administration office, while Tkachev and Khodchenko were detained in their homes. The customs officials are suspected of organizing the unlawful export of large quantities of non-ferrous and precious metals from Russia to the Baltics between December of 1992 and October of 1993. According to the data of the RUOP, for their assistance in the contraband export of metals by commercial structures, the customs officials were paid the sum of $300,000. Two Mercedes automobiles as well as money and valuables in the sum of $50,000 were confiscated from the detainees.

The workers of the Northwestern Customs Office declined to comment on what had happened, but in the State Customs Committee of Russia they told the following story. As it turns out, the activity of Vladimir Solntsev and Aleksey Tkachev had long attracted the interest of the GTK security service. An official investigation was conducted. They learned about it also in the Petersburg RUOP, whose associates detained the customs officials and filed a criminal case under Article 173 of the Criminal Code (taking bribes in especially large amounts during fulfillment of official duties). However, in the GTK they believe that it is still too early to talk about the guilt of the detainees, especially of deputy chief of administration Vladimir Solntsev. "A man of that level would hardly risk his position, even for the sake of big money," say the representatives of the customs service.

In the history of the GTK there have many cases of detainment of customs officials on suspicion of taking bribes. But then they were released, and the cases were dropped under rehabilitative circumstances or due to lack of proof of the accusations. For example, at the end of last year in Bryansk several associates of the local customs service were detained. All of them were suspected of corruption. But today only the chief of the customs service is being held in the SIZO [investigative isolation facility] and he too, as the GTK believes, will also be released soon.

Last year, the chief of the bookkeeping accounting and control section of the Krasnodar Customs Office was detained for document forgery and bribe taking. As the FSK [Federal Counterintelligence Service] operatives determined, this official had for a long time engaged in forgery of documents on customs declaration of cargo and motor transport. At the same time, he repeatedly received remunerations ranging from $200 to $1000.

However, detainment of major customs officials is still a great rarity. In most cases, rank-and-file customs officials whose length of service does not even exceed half a year are the ones caught in unlawful activity. In the opinion of representatives of the GTK, as a rule these persons either come specially to the customs service in search of "underhanded" earnings, or "are agents of the criminal structures."

[Begin boxed material]

Report on the work of the Northwestern Customs Administration

As reported in the press service of the Northwestern Customs Administration, from 13 through 20 March of 1995, customs officials performed the following work. Unlawful passage across the border of currency funds in the overall sum of $63,100 was uncovered. In Arkhangelsk, contraband export of five ancient icons was prevented. At the Pulkovskiy Customs Office, 33.78 grams of hashish were found. Twenty-six TT pistols and 650 cartridges to them were found and confiscated. As a result of violation of the customs declaration procedure, 333 tonnes of coal, 56 tonnes of naval fuel oil, 69 tonnes of ferrous metal scrap, 40 tonnes of metal hardware, 243 tonnes of timber, 55 tonnes of rails and 88 tonnes of plywood were detained. In the reporting week, over 60,000 citizens crossed the border through the northwestern section of the Russian Federation state boundary to go abroad, and 54,000 persons entered the country.

[End boxed material]

Thriving Video Pirating Industry Examined

954F1721A Moscow ARGUMENTY I FAKTY (MOSKVA supplement) in Russian No 10, Mar 95 p 7

[Article by Oleg Goryachev: "Video Piranhas: More Than 1,500 Pirated Western Films a Year Are Offered on the Russian Market"]

[FBIS Translated Text] *Every Saturday about 30 new movies from the West appear at the Moscow video market in front of the Imeni D.K. Gorbunova (popularly nicknamed "Gorbushka"). This translates into about 1,500 movies a year. The sellers do not own any rights to any of them. It is possible to "squeeze" them, but in the situation of chaos*

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reigning in the country, and the legitimate owners being on the other side of the ocean, this is a purely theoretical probability. As a result, we have all the latest movies even earlier than Europe, while "video crime bosses," romantically named "pirates," have a very substantial income.

"We Are Famous Bandits!"

The pirates admit that they can release a film the day after it premieres. "Our" man simply buys a ticket, and in the movie theater pulls a video camera out of his bag—after all, they themselves keep making them more and more compact... Then on the evening flight the tape goes to Moscow. It costs the pirates several hundred dollars. A couple of hours for translation, and by morning, if necessary, the consignment is ready. The duplicating capacities of large pirate studios permit the duplication of up to 1,000 cassettes a day. At "Gorbushka" such a cassette costs about R60,000. The market opens at 0700 (!). Pirates from other cities come for the day to replenish their supply and return home, and Sunday morning one can already buy the newest movie in the Baltics, Ukraine, or Belarus...

"Stealing This and That..."

Professionals call such copies "rags." In the kiosks selling these cassettes they came up with a more dignified designation: "screen copy." It is sometimes difficult to recognize the actors on them. On the other hand, there is a complete sense of being in a movie theater: Someone is coughing all the time (does the guy have bronchitis, or what?), and here somebody got up and, blocking half the screen, made his way toward the exit...

On the other hand, everybody who watches the videos has noticed that the quality of these "rags" has improved lately. Our consultant—who wished, like everybody else in this business, to remain anonymous—explained this fact very simply: The pirates now make a direct copy by bribing the movie theater operator or director, or someone at the warehouse where distribution copies are kept. Actually, this is natural: The more it goes on, the deeper the video thieves penetrate the structures of both distribution and movie studios.

The greatest scandal, and at the same time a record in the area of "speed theft," involved "The Specialist" (S. Stallone's latest movie), which showed up here a week before its premiere in America. Sometimes the competition in getting ahead of rivals in movie-stealing reaches the point of the absurd—movies sometimes get stolen straight from editing rooms. This is the way "Frankenstein" made it here, and a copy of "High Fashion" also could be found in our market in such form. In such cases the titles are absent—the movie title and the names of the stars are simply printed out on computer. In such cases, our viewers have the unique opportunity to see a draft version—some episodes later may be edited out of the movie; not all the special effects have yet been recorded... In short, we are really lucky.

"...Who Gives a Damn About the Law"

Obviously, it is ridiculous to speak of copyright protection in this case. A line from a bandit song says it all. Pirates are becoming increasingly more brazen—all the doors are already open to them. The giant American studios lately have been quite concerned about such "cinemaleaks." Together with the movies, millions of dollars drain through this hole to Italy, Greece, Hong Kong and Taiwan, Cyprus and East Europe. By the way, our country joined this list relatively recently. Therefore, it is naive to consider piracy a Russian mafia invention.

There are currently about 10 large pirate studios in Moscow. Each has its own specialization, depending on where the movies are stolen from. There are studios that deal with elitist movies, French, or even domestic. There is a studio with the maniacal name Videoman. The "rags" are their job. Each pirate studio has its own "residents" in the "donor country." They are mainly emigres. "Residents," in turn, maintain local contacts. They keep the "center" appraised of the latest releases, buy laser disks or, again through "their" people, get their hands on free preview cassettes sent to video stores before the movie's video release (one frequently encounters such tapes here, with the caption "Not For Sale" running across the screen).

"They Look Horrible, But Underneath, They Are Nice"

The last two methods are the most widespread. One does have to wait for several months until the company decides to release the movie on video, but most viewers do prefer to watch the movie with some delay but in a quality recording. And the pirates, too, are inclined to go this way—it looks better, is easier, and in the final analysis is more profitable.

Our viewer, and following him—the pirates responsive to the demand, are becoming visibly civilized. Only recently we ogled karate and horrors such as "Nightmare on Elm Street." Over the past two years, however, among "black market" favorites are "Indecent Proposal," "Speed," and "Running From the Mob." The pirates made a bundle on "Immortal Beloved," "Beauty and the Beast," and "Aladdin."

"Strange Boots Hurt the Feet..."

Life itself is gradually carrying the pirates to civilized shores. There is a need for order in every market. And if the state has not been able to impose it, it will eventually emerge spontaneously. This is precisely what has been happening lately. Movies acquire "fanged" owners who are interested in enforcing the law. They will defend their rights. Because rights are money for them.

Major movie companies began to distribute American movies here. And, naturally, defend their own. There is no need to even go to court—everybody knows each other. What did Sergey Lisovskiy do when he purchased "Mask?" He sent a letter to all pirates—keep your hands off. Anybody disobeyed—"pay up!" Would a man who has paid a bundle of dollars for a movie not have enough money to deal with thieves?!

And the pirates are gradually beginning to operate legally—buying video rights from movie distributors. Studio 1, for instance, has signed an agreement with the Yekaterinburg-Art distribution company and now legally prints copies of "Stargate," "Mountain Man 3," and "The

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Color of Night;" the Vikomp studio, in an agreement with Most-Media, releases French movies—"Queen Margot," for instance. Recently there are even special lists of movies not recommended for piracy being distributed at "Gorbushka." It is already more dangerous because the rights to them are owned by colleagues. And pirates' court, as you well know...

*Measures to Revitalize Light Industry Proposed

954E0794A Moscow DELOVOY MIR in Russian 21 Mar 95 p 4

[Article by Maisey Gelman, DELOVOY MIR observer: "How to Revitalize the Sector?"]

[FBIS Translated Text] **The sickness of our budget, like the ills of the country's economy, is largely caused by the disintegration of the domestic market: The disappearance of domestic goods and the growth of unsatisfied demand. After all, if this is happening, then there is nothing on which to collect taxes. And the primary reason for this is demonetarization of the economy. The liberation of prices devalued the working capital of enterprises and the savings of citizens. Not only is the devaluation of the ruble not being compensated by appropriate indexation of income, but it also erodes this income for enterprises by 80-90 percent in the form of various taxes. And since credit emissions are kept down in every way possible, a money shortage has arisen in the country, and as a result—a disruption in the balance of commodity-monetary circulation. Today there are around 40 trillion non-cash rubles (R) in circulation, while last years GDP [gross domestic product] equalled R630 trillion. In order to swing this pendulum of goods and services, taking into consideration its 6-8-time circulation in the course of a year, the available monetary supply is clearly not enough.**

The shortage of money gives rise to non-payments, increased credit rates and ultimately—curtailment of production. Moreover, this is accompanied by the growth of prices necessary to compensate for the increasing expenditures.

This vicious circle could have been broken with special-purpose credit emission at preferential rates. However, the government speaks out against this, motivating the need for stabilizing the rate of growth of inflation at the level of several percent. It is forgetting that, in a dead economy, the rates of inflation are generally zero.

If we loosen the stranglehold of demonetarization even a little bit, the country will begin to get back on its feet again. This may be simulated by using the example of light industry enterprises, most of which have united today into the AO [joint-stock company] "Roslegprom." This was the topic of discussion at a recent meeting of the Council on Industrial Policy and Entrepreneurship under the RF [Russian Federation] government.

Economic masochism

On our domestic consumer market, there is a huge, ever-expanding "abyss" of unsatisfied mass solvent consumer demand for cheap goods of everyday application. We are speaking primarily about people with income below or near the threshold of the subsistence minimum. In the first 2 months of the current year, their numbers have grown even more, and have already reached 43 million people. They are unable to buy the expensive imported clothing and shoes which fill the shelves of our stores, and they are wearing out what they bought in the past.

Yet there are few domestic-made consumer goods on the market. The avalanche-like decline in their production, as we know, was caused by the absence of the necessary working capital at the enterprises: The current economic conditions, the finance, price, tax and credit policy do not allow enterprises to accumulate it. Moreover, the consumers too, including the state, are deprived of the necessary funds, and do not pay in full for what they have bought. Due to non-payments, the incurred debts to enterprises of light industry at the beginning of this year exceeded R750 billion. And this with a volume of produced products in the sum of R2.13 trillion last year. Moreover, the prices on these products last year as compared with 1993 increased by 3.5 times. And the profitability declined by about as many times. At the same time, profits declined from R489.2 billion in 1993 to R253.3 billion last year. Consequently, fewer taxes were collected, and the profits which remained at the disposal of the enterprises declined respectively from R332.7 billion to R157.2 billion.

Prices are growing not only due to the continuous increase in prices on raw goods, materials and power resources, but also as a result of increases in specific expenditures in curtailing production.

At the same time, both the light and the textile sectors of industry are highly profitable with mass production of products. After all, before the beginning of the avalanche of reforms, i.e., before 1992, almost one-fourth of the state budget revenues came from deductions from their income. Yet last year this share fell to 5.4 percent. Today these sectors, like the entire economy, are on the brink of collapse. Production volumes of Roslegprom enterprises last year declined to 20-25 percent of the production volume for 1990. Out of 350,000 workers of these enterprises, over half worked a partial work week or went on unpaid leave. This is tantamount to a quarter of idle time for the entire sector. Their average wage is R130,000 per month, which is two times less than the average for industry.

This is some kind of absurdity. The enterprises of the AO "Roslegprom" can provide clothing and shoes for people with different levels of income. Many of them manufacture products which are able to compete both within the country and abroad. This is evidenced by the orders of foreign firms, placed at one-third of the light industry enterprises. Yet production for domestic consumption has been curtailed: There is no working capital. After all, after paying all the taxes, only 7 to 14 kopeks remain from each ruble worth of products sold. This money is not only insufficient for the reduced reproduction—it is not even enough to pay the wages. Yet the government, abiding by the purity of ideology of the so-called market reforms and

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ignoring the huge imbalance in the commodity and monetary supply, refuses to give enterprises credit at a normal interest rate. And because of this, it find itself without income for the budget, turning into a persistent defaulter. Simply speaking, it is robbing itself. This cannot be called anything other than economic masochism. After all, having given rise to the money shortage in the country, the "reformers" continue to be stubborn about the need for maintaining it.

We should emphasize that before, due to their short production cycles, light industry enterprises did not accumulate their own working capital in full volume, but worked with 20-day standard reserves of raw materials, and on credit. This credit was given at 2-6 percent per annum after shipment of products to the consignee. Therefore, with the beginning of reforms the enterprises found themselves without the necessary working capital. And to accumulate it in the current economic conditions is simply impossible.

And what if we loosen the stranglehold?

The situation in the country will begin to change for the better if enterprises begin to expand production of products for domestic consumption. And for this they must be given the opportunity to replentish their working capital through preferential credits as compared with the current ones. If we speak of light industry, considering the rather short production cycles, lasting only several months, such credits will not cause an upsurge of inflation. After all, they are guaranteed to be backed with merchandise in the form of finished products, and will be quickly repaid with interest.

The Roslegprom management has substantiated economically expedient interest rates on a preferential loan for its sector. For comparison, Table 1 presents the computed values of profits and deductions to the budget at three different rates. The computations were performed based on an average production cycle of 90 days and a profitability of 10.6 percent. The payments to the budget will be possible not even at 20.6 percent, but only at a rate of 20 percent per annum. Moreover, if such credit is granted today, the volumes of commodity production as compared with last year will increase to R3.44 trillion, while the payments to the budget will increase to R129 billion. However, the current credit rate of 200 percent makes production unprofitable. If preferential (at 20 percent) credits remain only in our dreams, then as a result of the decline of profitability in the current year there will be a further curtailment of production. And consequently, payments to the budget will also decrease.

Table 1. Computed amounts of profits and deductions to the budget (billion rubles) under various interest rates

	Using one's own working capital	Annual credit interest rates		
		200%	20.6%	20%
Demand for working capital	1500	1500	1500	1500
Commodity production without NDS [value-added tax]	3100	3100	3100	3440
Production cost of commodity production, including:	2799	5799	3100	3099
material expenditures	1500	1500	1500	1500
payment for use of credit	-	3000	301	300
Balance profits	301	-2699	0	341
Payments to the budget	114	0	0	129
Profits remaining at the disposal of the enterprise	187	0	0	212

Roslegprom proposes one other possibility for expanding production while at the same time increasing budget deductions. This will occur if the profits received at the expense of the relative growth in the physical volume of production as compared with last year are exempted from taxation in the current year. The computed data for enterprises of Roslegprom are presented in Table 2. Without such preferential taxation, it would be economically inexpedient for them to increase product production. With increase in the volume of commodity production to R3.1 trillion, 1 percent growth would comprise R31 billion. And as compared with last year, each 1 percent of growth would make it possible, through the NDS and the special tax, to increase payments to the budget by R3.64 billion. And in the subsequent years the deductions will increase also due to the increased profits themselves.

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Table 2. Computation of increase in payments to the budget in 1995 based on growth of volume of production by 1 percent as compared with 1994

Name of indicators	With 1% growth in volume of production (in billion rubles)
Computation of tax on profits	
Commodity production (with increase in volume to R3100 billion)	31.0
Production cost	28.0
Profits	2.8
Payments to budget at a tax rate of 38 percent of balance (taxable) profits	1.06
Profits remaining at the disposal of the enterprise	1.74
Computation of value-added tax and special tax	
NDS (20 percent) and special tax (3 percent) collected from consumers	7.1
Production cost	28.0
including raw goods and materials	10.4
NDS and special tax paid to suppliers	2.4
NDS and special tax owed to budget	4.7
TOTAL payments to budget	5.76

The practice of granting a one-year tax exemption on the growth in profits has already been approbated in light industry in 1991, and stimulated the maximal utilization of production capacities. However, the working capital accumulated at that time was devalued in 1992, and the experiment never became the norm.

If exemption of the increase in profits for a year were to be combined with preferential (at 20 percent per annum) crediting, all the enterprises of Roslegprom would begin to operate at full capacity, and in a few years would be able to accumulate the necessary working capital.

If the light and textile sectors of industry were revitalized in this way, Russians would be able to clothe themselves and buy shoes even with their current income. But this, evidently, will also require the aid of the local authorities. After all, today it is more profitable for the new owners of the privatized stores to trade in expensive imported products. If they want to trade only in these goods, let them pay a higher lease rate for the land. And if the goods assortment is comprised of no less than half domestic-made goods, the lease payment should be reduced. The authorities may compensate the difference by increasing the deductions as a result of the growth of profits at the enterprises.

Such reanimation of the light and textile sectors will also make it possible to revitalize the machine building sectors which serve them.

The matter lies with the authorities. Are they ready for such an experiment?

*Grain Import, Export, Pricing Problems Examined

*Wisdom of Exporting Grain Examined

954E0754A Moscow KRESTYANSKAYA ROSSIYA in Russian No 1, 9-15 Jan 95 pp 1-2

[Article by Artem Lysenko: "There Is Something, But There Is Nothing To Eat!" (Folk Wisdom)]

[FBIS Translated Text] **In 1994, Russia began to export grain abroad. True, not from an abundance, but from stupidity.**

1994, which has passed away, considerably reformed the Russian grain market. The volumes of state grain purchases abroad decreased by almost 30 percent, and the main part of was delivered even before the harvesting. From September to December no imported grain at all arrived in Russia along state lines. That is, last year, it would appear, the state finally focused its interest on domestic production.

A detailed analysis of the grain market leads to different conclusions, however. "The devil is in details" says an Eastern proverb. In the first place, Roskhleboprodukt considerably reduced the volume of centralized purchases of grain and therefore greatly narrowed the influence of the central organs on the grain market. For example, the federal fund is intended to provide only for the needs of the North and the army, to cover half the needs of Moscow

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and St. Petersburg and to replenish the reserve fund. This required only about 11 million tonnes of grain, that is three-fold less than in 1993 (solving the rest of the problems was farmed out to the regions).

Since the grain harvest in Russia was 84 million tonnes (33 million tonnes of it was wheat), it would seem that forming 100 percent of the federal fund from domestic grain would not constitute a problem. Especially since the grain could be purchased about 2.5-3-fold cheaper in Russia than it could abroad.

Nevertheless, it has now become obvious that the state will still purchase grain abroad—and not the top-quality sort to improve the Russian flour, but the most ordinary that there is—the kind that one could easily find in Russia. The Ministry of Finance, however, simply could not allocate money to acquire a sufficient quantity of grain at prices suitable for the Russian peasants. It could not even distribute the funds allotted correctly. For example, last year a novelty was introduced: the Ministry of Finance allotted the money to purchase grain for the regional funds directly to the oblast administrations. Let us remember: this money was formerly in the keeping of Roskhleboprodukt.

It would seem that, as a result, things should go much better: the fewer authorities, the more efficiently the purchases will be made.

This form of distribution, however, led to certain distortions. For example, the Sverdlovsk Oblast Administration, according to Roskhleboprodukt's data, was allotted 59 billion rubles [R] to purchase grain—200,000 tonnes of top-quality grain could have been bought for this money. In fact, though, only 3,300 tonnes were bought. In the opinion of Yevgeniy Tyurin, vice-president of Roskhleboprodukt, this is not even enough to provide for 24 hours of the oblast's normal activity.

There are, therefore, 2.1 million tonnes of the planned 11 lying in the state's granary (federal fund) today. Roskhleboprodukt specialists claim that in time they will manage to collect about another 3-4 million tonnes. They will not succeed in purchasing the entire volume from the Russian peasants, though, this is already clear: there is simply no grain of the necessary volume and quality on the Russian market—part of it has spoiled because of poor storage conditions, and quite a lot has been and is being exported abroad, to the CIS countries.

The latter circumstance has a particularly "piquant" aftertaste: in actual fact, Russia was a grain exporter in 1994. Export is usually a sign of a country's high level of well-being. This does not pertain to Russia, however. In the first place, mostly types of grain that were not priority for the economy were supplied abroad—barley, for example. True, wheat, which is in such short supply today (the prices for which, at the OGO firm, for example, have risen to R270,000-290,000 per tonne in just the last few months), was exported in a non-centralized fashion. This too, however, is a sign, not of well-being, but of state mismanagement: however much they export today—they will have to purchase at three times the price tomorrow.

It turns out that, while allegedly concentrating on the domestic market, the state is not doing a bad job of supporting Western farmers by purchasing approximately 6 million tonnes of grain from them.

*Cost of Food Import, Price Liberalization

954E0754B Moscow MOSKOVSKIYE NOVOSTI in Russian No 15, 26 Feb 95-5 Mar 95 p 7

[Article by Andrey Sizov, director of the SovEkon Center: "Food Expectations"]

[FBIS Translated Text] Not long ago, Vice-Premier Aleksandr Zaveryukha stated that Russia might possibly have to import 20-25 million tonnes of grain this year. For the first time, after the assurances all last year that Russia had at its disposal sufficient reserves of food, including grain, and that it would give up importing, the government starting talking about the possibility of going back to importing on a large scale.

In many ways, this declaration was intended for the deputies of the State Duma, who were to approve the 1995 budget. Behind this utterance, however, lies the really serious situation forming on the food markets.

The grain and sugar beet harvests fell sharply. In 1994, the gross harvest of grain dropped to 81 million t, or by 18 percent as compared with the preceding year. The sugar beet harvest was only 13.9 million t, which is 45 percent (!) less than in 1993. This is the smallest harvest in the last 31 years. The sunflower harvest also dropped by 7 percent.

No less important was the sharp drop in purchases, particularly of grain, for the federal and regional funds, on the volume of which the supply for the people in many ways depends. By the beginning of January 1995, only 1.7 million t of food wheat had been purchased for the federal fund, when it was necessary to purchase 8 million t. The situation is somewhat better in the regional funds: 6.2 million t of wheat were purchased, or 69 percent of the planned level.

For the time being, the bread supply situation appears outwardly calm. Interruptions are already occurring in a few areas, though. The quality of the white bread has also fallen—because of poor-quality grain. Since there are no signs that the purchasing situation will improve, we should expect a further deterioration on this market. It is quite likely that there will be a considerable cutback in subsidies for bread in regions where they are still maintained. This will lead to a rapid rise in prices, but will hardly reduce the demand for bread, which will, as before, be the cheapest food product.

Considering the difficulties in obtaining new foreign loans and the lack of possibilities for import with immediate payment for supplies, Russia cannot, of course, purchase on world markets the volumes of grain mentioned by Aleksandr Zaveryukha. One thing is indisputable, however: the trend toward reducing import will be replaced by another in 1995—in the direction of increasing it.

While grain may be purchased on credit, the import of sugar or vegetable oil has to be paid for immediately. By

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November 1994, most of the sugar refineries were forced to stop work because of the shortage of raw material, although they are usually working at full capacity by the end of the year. At the same time, the high world prices for sugar are seriously restricting import. In addition, the problem of resuming supplies of oil to Cuba in exchange for raw sugar remains open. In any case, the Cuban supplies can start only by summer. According to the calculations of Goskomitet, the shortage of sugar in Russia in the first six months of 1995 may reach 1 million t, which is approximately one-third of the population's need. As a result, we can expect a sharp out-of-season take-off of prices for sugar.

Signs of a deepening shortage are also obvious on the vegetable oil markets. Because of the low purchase prices, the farmers are trying to export sunflower seeds abroad. It is estimated that, out of 2.6 million t of sunflower seeds harvested in 1994, about 1 million t will be exported from Russia. As a result, the shortage of vegetable oil in the first half of 1995 may reach 200,000 t—45 percent of the need.

The paradox in the situation lies in the fact that the farms still have unsold commodity surpluses of food grain and sunflower seeds left. They are left, but they are not being sold to the state, but exported to the near and not-so-near abroad. Today the Ministry of Economics, in the person of Yevgeniy Yasin, proposes prohibiting the export of food wheat until the new harvest, and establishing an export duty on sunflower seeds in the amount of 30 ECU per tonne.

In reality, under the conditions of the increasing shortage, blindly following the slogan of liberalizing the grain market hardly makes sense. You will not master the situation with bans, though. The government will still not be able to determine who should be given priority: the domestic producer or import. If we purchase agricultural products from our own people, we must offer them the appropriate terms. Moreover, not only for today's purchases, but also for the new harvest, which must be contracted right now. If it is not, then we must realize what to do with import: volumes, structure, sources of financing (what the state can purchase and what private structures can purchase).

Meanwhile, "we wait"—now for a new harvest, now for a new order. Only the food prices do not want to wait and are rising, not counting on the government's assurances of the coming drop in the rate of inflation.

*Wheat Deficit Expected To Get Worse

954E0754C Moscow KRESTYANSKAYA ROSSIYA in Russian No 9, 6-12 Mar 95 p 1

[Article by Artem Lysenko: "When Will the Grain Run Out?: The Wheat Shortage Will Probably Intensify in March"]

[FBIS Translated Text] The prices for most grain crops rose sharply in February. Commercial structures paid up to 360,000 rubles [R] a tonne for wheat, not counting transport costs. For comparison: in January a tonne of wheat cost R270,000-280,000. Strange as it may seem, however, such a sizable leap in prices did not lead to a drop in the purchase volume. Most specialists account for this by the quite well predicted expectations of an even greater leap in prices next month.

The activity of the major commercial structures is also explained by the fact that in February there was an increase in the difference between the selling price, that is, the price at which the peasants offer it, and the purchasing price—the price at which it is offered to the consumers. It also became possible to make good earnings, not only on the inflated rise in prices, but also on the difference. The "profit" for the middlemen often reaches R50,000-60,000 per tonne.

The situation is different with state purchases of grain. Here there is a complete backwater. Roskhleboprodukt, according to Yevgeniy Tyurin, its vice-president, purchased only about 30,000 tonnes of grain in February. Roskhleboprodukt experts link such small purchase volumes mainly with the fact that the farms have virtually no grain of the necessary quality left. The regional divisions cannot implement supplies, therefore, even for good money. For this same reason, some oblasts today are returning to the federal fund the money allotted to them for grain purchase: there is no grain. This list also includes Rostov Oblast—one of the major grain producers in Russia.

This strong disparity in the behavior of the commercial and the state structures is quite easily explained: in most cases businessmen are earning money for small-sized supplies of grain left over from the old harvest. There are quite a lot of these left-overs on the market today, according to the testimony of experts of the OGO firm. Good money can be earned for them, as we have already mentioned. These batches are too small, however, given the scale of Russia's state needs.

No large state supplies of imported grain should be expected in March: according to Yevgeniy Tyurin's data, the state simply has no money for supplies of this sort. The grain shortage, particularly of food wheat, will therefore intensify next month. Consequently, a rise in the prices for it is inevitable.

*Prospects for Gold Mining in East European Russia Studied

954F1940B Moscow SEGODNYA in Russian 21 Mar 95 p 13

[Article by Anastasiya Naryshkin: "There Are Gold Deposits in the East European Platform; Perhaps Gold Mining From the Sands of Smolensk Oblast Will Began Already This Season"]

[FBIS Translated Text] Last week, the Central Scientific-Research Geological Survey Institute of Non-Ferrous and Precious Metals (TsNIGRI) held a defense of a report devoted to mining gold as a by-product in the regions of the East European platform.

Information to the effect that there were gold fields in Moscow Oblast had been received before. However, it was obvious that there was certainly not as much of the

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precious metal in the center of Russia as, say, in Kolyma or in Yakutiya. Now, when enterprises are trying to earn money independently and when the profitability of gold mining in the North has become doubtful, the TsNIGRI developments have taken on particular value.

Gold Under Your Feet

At the beginning of 1993, specialists at TsNIGRI undertook work associated with determining the prospects of gold mining in the central regions of Russia. The basis for this were the data of geological surveys, as well as information to the effect that in analogous regions of certain Western countries (for example, the USA, Canada and Austria) gold sand is extracted as a by-product, during processing of sand and gravel mixtures.

By the present time, 150 gold field outcroppings have been found on the East European platform. Among the most promising are the Volga-Urals, Voronezh, Moscow, Kamo-Severodvinsk and the Timansk fields. For example, in the Central deposit (Tambov Oblast), the gold content comprises 0.2-0.4 grams/cubic meter; in the sands of the Volchansk field (Lipetsk Oblast) it is 0.15 g/tonne, and in Volgograd Oblast it is 218 mg/cubic meter. The average gold content varies from 200 mg to 1 gram per cubic meter.

Gold from quaternary alluvial deposits of river networks may be extracted primarily during clearing of channels. In the most well-known alluvial deposits of the Kamo-Vyatsk interfluve, gold-bearing strata have been found with a fine gold content of 10-600 mg/cubic meter on the Kuzhma and Volvo Rivers, and 570-700 mg/cubic meter on the Kosa River, as well as 900 mg/cubic meter in the upper reaches of the Vyatka. It is believed that in the sands of the Smolensk-Vyatsk zone, around 1500 km in length, from 200 to 250 tonnes of gold are awaiting their hour. Its average content in the alluvial deposits of this sort is 100-300 mg/cubic meters.

The size of the grains of metal is generally 0.05-0.15 mm. Grains 2.5-3 mm in size have been found, and rarely 0.5 mm grains are encountered. Ninety percent of the metal is comprised of grains which are in the size class of 0.25-0mm. We must note that, for the present time, in the words of TsNIGRI specialists, there are no methods allowing the extraction of so-called fine gold. As a result, the data on its content in samples are reduced by 40-60 percent. In the opinion of TsNIGRI specialists, it would be unprofitable to mine gold of this sort using conventional methods.

What To Do With It

As the director of TsNIGRI, Igor Migachev, told us, if we take all the gold which could be extracted from the sands of the East European platform as 100 percent, then 10-15 percent of this volume (hundreds of kilograms a year) could be obtained by clearing river channels. Another 3-5 percent would be yielded by small prospecting teams, and the rest, i.e., over 80 percent, would be obtained from the ore-enriching combines. Part of the metal may be extracted during processing of sand and sand-gravel mixtures, part—from titanium-zirconium alluvial deposits, and part—in mining phosphorites. For the present time, the discussion centers around the first method.

In the central part of Russia today, there are around 200 deposits of sand-gravel mixtures being developed. Specifically, in the Northwestern and Central regions, over 20 large ore-enriching combines have processing volumes of up to 5 million cubic meters of rock mass per year. In processing the sand and sand-gravel mixtures for production of gravel, rubble and washed sand, these combines could at the same time extract gold from them.

In 1993, TsNIGRI sent a proposal on conducting joint operations to several Russian GOKs [ore-enriching combines] (in Ivanovo, Moscow and Smolensk Oblasts). Viktor Goncharuk, the director of the largest GOK in Europe, the Vyazemskiy GOK, expressed particular interest in this plan. Mr. Goncharuk not only gave the TsNIGRI the opportunity to take samples of the sands (in 2 months, around 50 samples with volumes ranging from 200 to 500 liters were taken), but interested the administration of Smolensk Oblast so much that the governor of the oblast, in announcing the endeavor to Mr. Chernomyrdin, appealed to him for support. However, support has as yet not been forthcoming.

The results of analysis have shown that the content of high-grade (950) gold in certain samples comprised 300 mg/tonne, or 179 mg/cubic meter. In most of the samples it was 120 mg/tonne, or 71.4 mg/cubic meter. Aside from gold, magnetite and ilmenite [titanic iron ore] concentrates, granite products, etc. were also found in the ores. Over 90 percent of the gold is concentrated in small fractions 0.5 mm in size, but the size of the grains of gold is most often less than 0.15 mm.

In the words of the head of the mineral raw material enriching section of TsNIGRI, Aleksandr Romanchuk, with such a content the combine could easily obtain 200-300 kg of gold per year, which, at an average price of $11 per gram, comprises a minimum of $2,200.

The Project Will Pay For Itself In Less Than a Year

The gold could be extracted from the end product of processing sand-gravel mixtures—from fractions of 3 mm sand. In the process of extraction of the gold, the sand is turned to sludge, and the heavy minerals are removed from it. No principally new technologies or assemblies are required for this: It is enough to have electromagnetic separators and gravitational enriching apparatus. In other words, the gold becomes a by-product in obtaining high-quality sands.

Accordingly, the lion's share of expenditures for introduction of technical improvements falls on the price of the sand, and the gold becomes exclusively a source of profit (naturally, after the new installations have paid for themselves). The combine will be able to produce graded sands, opting for certain risk. The high quality will also entail higher prices as compared with the current ones, and therefore the developers are not sure if this product will find a consumer.

In the words of Mr. Migachev, in order to regulate the extraction of gold at a large quarry, capital investments of R2 - R2.5 billion are needed (in prices at the start of this year). These capital investments, in the computations of

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TsNIGRI, will be recovered in a maximum of a year and a minimum of 6-7 months. However, this sum seems too great for the management of numerous GOKs, especially if we consider that no precedent has yet been set. "The main task," says Mr. Migachev, "is to extract at least a pood [16.38 kg] of gold. Then people will understand that this is possible."

It seems that the first pood will be extracted, once again, at the Vyazminskiy GOK. The management of this enterprise has agreed with TsNIGRI's proposal to conduct serious tests, and not on the modular, but on the industrial equipment. In the words of Aleksandr Romanchuk, it is presumed that 10 percent of the mixtures processed by the GOK will be passed through the appropriate installations in the course of the season. All preparations have been made for the work, and producers of the equipment have been found (all of it is domestic-made). The only problem is the financing. Specifically, the tests will cost R200-R300 million, and as yet there is no money to perform them. The management of TsNIGRI and the GOK are pinning great hopes on the oblast administration which, in the opinion of specialists, must be extremely interested in such endeavors.

The tests, if they are held, will demonstrate not only the prospects of by-product extraction of gold, but will also help to evaluate the demand for graded sands, and also the possibility of by-product extraction of other minerals. Moreover, the economic indicators will be clarified, which up until now have been very roughly estimated.

*Metalworkers Union Head Assesses Privatization

954Q0163A Moscow NOVOYE VREMYA in Russian No 10, Mar 95 [signed to press 7 Mar 95] pp 18-19

[Interview with Boris Misnik, chairman of the Mining and Metallurgical Trade Union of Russia, by G. Kovalskaya; place and date not given: "If the Plant Was Purchased"]

[FBIS Translated Text] Neither the leftists nor the rightists like Russian privatization, and names such as "nomenklatura-like" "predatory" have become commonplace. At the same time, in the chorus of condemnation one almost never hears the voices of those who could actually describe the position of those in private enterprises. To what degree has the change in the form of ownership affected their life and wages? Are there any attempts to infringe on their rights? How can the workers protect them?

We asked Boris Misnik, chairman of the Mining and Metallurgical Trade Union of Russia, to respond to these questions. As commonly known there are trade unions which are "official"—that is those belonging to the Federation of Independent Trade Unions of Russia [FNPR]—and also "free" trade unions not belonging to the FNPR. The metalworkers trade union headed by Misnik appears to occupy an intermediate position. In October 1992 the Central Trade Union Council, under the chairmanship of Misnik, made the decision to withdraw from FNPR. It turned out that the "old" fully traditional trade union structure with directors, trade union members, and a branch membership of almost 100 percent—that is everything that the free trade unions opposes—found itself under conditions created by a truly independent existence. Therefore the size of the metalworkers trade union is much greater than any free trade union—2 million members—and all decisions, including those pertaining to privatization, are made by the trade union independently without the ideological dependence on the FNPR or anyone else.

Our observer Galina Kovalskaya talks with Boris Misnik.

[Kovalskaya] What is the attitude of the metalworkers trade union toward the very idea of privatization?

[Misnik] To us, "Chubay" privatization is not the first experience of this nature. From the end of the eighties the government, which was still Soviet, prodded the metallurgical enterprises in every way to become joint-stock ventures like those in Austria. It is true that at that time, the agreement of the labor collective was required and people were apprehensive about joint-stock ventures. Whenever conferences of labor collectives were conducted, the people usually did not agree to reorganization.

In 1992-1993, however, on the wave of reorganization enthusiasm, they were willing to create joint-stock ventures. They were particularly pleased with the so-called "second variant" in which 51 percent of the shares remained with the labor collective. Even then we were already warning against excessive euphoria with regard to the second variant. We said: 50,000 workers will not acquire a sense of ownership just because they each become the owner of several shares. A change in the form of ownership in itself is not enough to improve effectiveness; new technological processes are needed along with investments.

Our Finnish colleagues told us that most of the hired workers prefer not to own shares of their enterprise. Even after receiving them as joint-share ventures, they sell them and purchase some other shares.

At first we were sometimes criticized: why is it that you were unable to create a legislative norm so that a trade union member would be included in the commission on a mandatory basis? In my opinion such a norm is not necessary. If a trade union leader enjoys a position of authority, the collective will promote him; if not, then something is not in order within the trade union.

It is with surprise that we discovered that in Finland, for instance, a member or chairman of a trade union can be on the board of directors of a joint-stock enterprise. For the trade union, that is a way to obtain information which is usually concealed as a trade secret. The trade union can use such information in concluding a collective agreement.

Of course, it is necessary to admit that temptation posed by proximity to money proved to be too much for some. In such cases it was necessary to interfere from Moscow, as, for example, in the case of the Chelyabinsk Metallurgical Combine.

For better or worse today, 82.9 percent of metallurgical industry has been privatized. At the same time in some

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branches—the aluminum, by-product coke, ferro-alloy, and carbon branches—the level of privatization is 100 percent.

[Kovalskaya] Where is privatization developing most slowly?

[Misnik] In science it is16.7 percent; in the environmental protection sphere it is 21.4 percent; in transport it is 50 percent; and in the tungsten-molybdenum industry, most of whose products were used in the defense industry, it is 60 percent.

[Kovalskaya] What are you doing at enterprises that are already privatized?

[Misnik] In the course of creating joint-stock enterprises, the question arose several times as to whether trade unions are even necessary today. The director of the Magnitogorsk Metallurgical Combine visited me once and said: "Everyone is now a shareholder—all are owners—so what rights are you going to protect for me today?" It had to be explained that our shareholders continue living on a salary, not on share dividends, and they still can be dismissed (the status of a shareholder is no guarantee of employment); they need normal working conditions. All this needs to be reflected in the collective agreement. Even the director, a work provider, is interested in dealing with organized workers as before, even if they are now called shareholders.

[Kovalskaya] This means that with the creation of joint-stock ventures, the status of the worker and his self-awareness remain practically unchanged, and the work provider retains his previous capacity as well. Is that right?

[Misnik] Certainly not! Even before the start of the cash stage of our privatization, part of the shares went on sale. The process of property redistribution began. We discovered that enterprises are ending up in the hands of completely new people who are frequently not from the same region or branch. The new owner may not even care at all whether operations are carried out in a certain way or not.

The new owner often changes managers. Here are some examples: there are new directors at the Krasnoyarsk Aluminum Plant and at the Moscow Electrode Plant. Instead of our old much-cursed "red" directors of all kinds, completely new people are arriving. The former director was labor collective oriented, but the new one has a totally different goal: profits.

[Kovalskaya] That is, an improvement in the efficiency of the enterprise?

[Misnik] It varies. Sometimes it is an increase in efficiency and at other times it is also a decrease in social and ecological programs. It could also be rejection of production modernization. As you know, our labor in metallurgy is extremely cheap while equipment is expensive. Of course, that is the policy of temporary managers. There are also those who believe that "in a year we will gain something, then we can sell the enterprise."

Aluminum enterprises are being actively bought up by foreign capital. Two-thirds of the shares already belong to foreign companies. The practice of tolling is used there which is when the entire process from delivery of raw material to the shipping of a finished product is paid for. In practice this means that the Krasnoyarsk Aluminum Plant cannot purchase Achinsk alumina but must secure the raw material in Guinea.

[Kovalskaya] Is that so bad?

[Misnik] We are not saying that it is bad. For many of our enterprises this is the only way to survive. It is just that a completely new situation has formed in which the trade union has to operate. Use of tolling is clearly bad for domestic suppliers of raw material—the Achinsk Alumina Mine and the Severouralsk Bauxite Combine—while the Krasnoyarsk and Bratsk aluminum plants, which employ more people, more members of our trade union, are thriving and feed themselves very well thanks to the foreign investors.

[Kovalskaya] Do foreigners try to save money on modernization?

[Misnik] On the contrary, those owners are investing money in equipment. At the Bratsk Aluminum Plant I saw machinery for the continuous casting of aluminum which replaces an entire shop. It is true, this means that the 100 individuals working there will soon be reduced to only 30, but there is nothing that can be done. Development of this branch will take specifically that path, and we are preparing our trade union and our workers for this. Over the past 20 years the number of jobs in metallurgy decreased by almost half. The Federal Program for Development of the Metallurgical Industry was adopted and around 140,000 jobs will be eliminated in accordance with it.

[Kovalskaya] What does the trade union think about that?

[Misnik] Our proposals are incorporated in the Federal Program. First of all we are talking about creating new jobs. That is what is taking place, by the way, at numerous enterprises. As they say, poor quality of life helps. The Orlov Steel Mill lacked money, then it organized a shop for the production of motor vehicle windshields and the shop paid wages for the entire mill. The Volga Pipe Rolling Enterprise started producing spare parts for old automobiles which are in very short supply and also earned enough to survive. The Stolensk Combine organized a sewing factory and is producing competitive quality jeans. The other trend that is occurring is lower employment—the disappearance of a large group of females who want to work in order to have a pension in 45-50 years. The third, and probably the most difficult one, is resettlement. In the regions of our Far North there are, for example, some gold mining enterprises where the production cost of gold exceeds its world price. Those enterprises, naturally, will have to be closed down and the personnel moved out.

[Kovalskaya] The second stage of privatization is starting.

[Misnik] Yes, we have information that shares are being actively bought from workers at numerous enterprises, but there is nothing we can do to stop this even if we wanted to. The interested firms are paying several times more for the shares than their market value. The only thing we are successful in doing at some of the enterprises is creating

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partnerships of the limited type in order to leave at least a part of the shares at the enterprise. This is necessary in voting on issues of social development, employment, and collective agreements. Otherwise a situation may occur where all issues, including those of great importance to the workers, will be resolved by the vote of two or three people.

Government policy must ensure that controlling interest is in the hands of a real investor. For example, a competitor wants to purchase a plant in order to close it. This cannot be permitted under normal circumstances. Moderate protectionism is probably also necessary in cases such as those with tolling, which I have already cited. It would be irrational to allow our raw material bases to perish. The principal task of the government in that situation is not to permit such an increase in social tension which would cause worse economic consequences than some compromises. Otherwise there is the situation like the one with the miners: circumstances are allowed to develop to the point of strikes, and then larger payments are made than would have otherwise been necessary.

We are organizing cooperation with metallurgists of other countries in order to counteract transnational corporations. Such practice exists in the world. Steel workers of North America, for instance, cited the fact at a conference that with the aid of their Japanese colleagues, they managed to remove five managers, five executives, who were playing their own game. That is an attempt to act under conditions created by globalization of the economy. Also, it is especially in metallurgy that these tendencies are particularly pronounced.

[Kovalskaya] Shares are being bought most actively in which branches?

[Misnik] Primarily aluminum. It is very animated at the Solikamsk Magnesium Plant. Many of the enterprises in ferrous metallurgy are also of interest to the investors.

[Kovalskaya] Who needs our steel?

[Misnik] It is in great demand. Some types of our steel products are quite competitive. Continuous casting of steel was devised in the USSR and then forgotten; now it is used throughout the world. By the way, right now when it would appear no one has funds for even minimal equipment renovation, the Western Siberian Metallurgical Combine is installing a continuous casting facility. It is imported, of course, but it does not matter because without new technological processes it is impossible to survive.

It might be difficult for us to get a foothold on the western market with our steel but southeastern countries—Taiwan, South Korea, and others—are very happy to purchase it. The Russian export of ferrous metallurgy doubled during 1993-1994.

[Kovalskaya] There are cries that everything is disintegrating.

[Misnik] When everything is in order they will no longer be yelling. In many areas, believe me, people are feeling fine and are holding on to their jobs. In general, when we speak about preservation of jobs, all other issues, including wages, retreat into the background.

What lies ahead for us is the transition from gigantic plants to small and medium-size metallurgical enterprises. All developed countries have gone through such breakups.

*State of Aluminum Production, Market Viewed

954E0761A Moscow ROSSIYSKAYA GAZETA in Russian 23 Mar 95 pp 1, 3

[Article by Aleksandr Velichenkov: "In the Dense Metallurgical Forests"]

[FBIS Translated Text] Soon it will be a year that our society, the press, television, and international business circles have focused attention on the problems of Russia's aluminum industry. The point is that most of our aluminum combines are under the control of two offshore firms (that is, with indefinite ownership) in Monte Carlo. The directors of these firms—the brothers Lev and Mikhail Chernyy—have become newspaper "heroes" and even the "owners" of Russia's aluminum industry.

It soon became clear that our society would not accept such a state of affairs calmly. Seizing control over the aluminum combines (Irkutsk, Bratsk, Sayansk, and Krasnoyarsk) was extended over 1993 and 1994 by using dummy firms and even banks, and it was carried out in the best traditions of the genre of financial aggression—quietly and secretively, but with the proper efficiency. Our stock market suddenly became aware after everything had been decided. In the seizure process, however, there were so many violations of Russian law that half of the transactions to acquire stock shares in the combines could have been declared invalid if it was so desired.

Let us compare what existed before and what developed. In 1992, our aluminum industry was operating at a capacity of 30 to 35 percent. There were nonpayments, disruption of ties with suppliers of alumina from the CIS, and devaluation of enterprises' working capital. Attempts to substantially increase exports met with the antidumping measures of the EEC and difficult negotiations on quotas for the shipment of our aluminum to Europe. The price of a metric ton of aluminum fluctuated in the London Metals Exchange between $1,100 and $1,200.

Today the aluminum industry has been practically "tied up" with the capability to produce nearly 3 million metric tons of the metal this year. It needs about 6 million metric tons of alumina for this, but our own production does not reach even 2 million metric tons. Our situation is not the most pleasant. The current price for aluminum in London is fluctuating between $1,800 and $1,900 per metric ton, but not all the aluminum we produce is Russian.

So-called tolling accounts for more than half of the production. There are two varieties of tolling operations. In the first one, the alumina belongs to a foreign firm which ships it to us for processing, pays 45 to 55 percent of the metal's London price, and exports the finished product in its entirety. In the second variety, the alumina is transferred to our ownership and roughly half of the aluminum produced from it is accepted as payment.

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These are the realities of today. Assessing these realities results in two opposing views: either complete nonacceptance—a demand for deprivatization, state control, etc.; or the traditional approval.

Let us not jump to conclusions. According to the accusations "produced" in the press and on television against the new owners, the owners are involved in laundering "dirty" money, falsifying letters of advice, and participating in direct criminal activity. There is no need to make a hasty objection, however, because there is an investigation and the courts will look into the matter. There are also completely objective reproaches concerning violating currency and antimonopoly laws. This is one side of the coin. The other side involves the jobs, taxes, foreign exchange earnings, and social stability. Let us examine just the regional aspect of the problem. Krasnoyarsk is the leader among Russian cities in the number of registered unemployed. Three giants of Russia's defense industry, two in the rocket and spacecraft industry and one in the nuclear industry, are "living hand to mouth." Social stability is maintained by the aluminum combine, which really is producing a tangible return.

In the example of the aluminum industry, we encountered the problem of real foreign investments on a large scale for the first time, and now we are wondering whether this is good or bad.

Production, exports, work places, taxes—all this is fine, of course, but to pay for this there is definite dependence on structures whose real owners we do not even know, just as we do not know their future plans. What happens if production begins to decline at Russian enterprises when conditions in the international market get worse? And where is the point beyond which economic dependence turns into political dependence? Haven't we crossed the line? On one hand, we are attempting to create every condition to attract international investments in our economy and blaming former GKI [State Committee on the Administration of State Property] Chairman Polevanov for their sharp decline in recent months. On the other hand, we are suddenly sounding the alarm about a case of real investments that are quite profitable for Russia. They are almost saying that Siberian governors will be assigned to Monte Carlo.

In our opinion, this problem is far-fetched and is more political than economic. The state has enough levers of economic influence over any foreign investor who decides to engage in incorrect behavior. There are tariffs on energy, services of the MPS [Ministry of Railways], measures of antimonopoly legislation, and currency and foreign economic regulation.

There is a real economic problem, however, and it is this: the increase in prices for aluminum over the past year and a half to two years in the world market have gone beyond the point where it becomes profitable to build new aluminum combines (unless interest rates rise in the financial markets). The Brussels Memorandum of Mutual Understanding Among Aluminum Producers (MOU), in conformity with which the largest producers assumed responsibility to voluntarily limit production beyond the levels reached, is falling apart. Spain has already announced its withdrawal from the MOU, and reports that two Arab producers intend to build new combines with a total capacity of 600,000 metric tons of the metal have caused prices to drop to $100 per metric ton in London. It is no coincidence that the United Arab Emirates have turned out to be leaders in expanding the market. With free capacities at atomic power stations and evaporators, there are no particular problems in releasing steam for a turbine which turns a generator instead of being directed into a coolant. With an electrolytic basin nearby the aluminum combine is practically ready. Something similar on a little broader scale threatens Russia with loss of its raw material base. The social consequences of this occurrence for Krasnoyarsk are hard to predict.

Russia's rapid entry into the international aluminum market under the new reform conditions clearly demonstrates that the new owners are at least strong professionals. Sharply raising the volume of production and bringing about a rise in prices at the same time is far from the norm. Prices usually fall in such a situation. These new owners have resolved problems not only with purchasers of the metal but with the suppliers of alumina as well. The question then arises: just who are they?

International corporations, perhaps? Not very likely. They would not have been hiding in an offshore shell. It is much more profitable for them to pin their label and their expenses on Russia to compensate right away for the increased cost of their own stock shares in the West. Similar examples may be cited in oil extraction.

Perhaps these are international speculators in aluminum from the London Exchange who have come to take part in a few profitable operations while prices are rising. Under the cover of a boom in aluminum stock on the exchange in Russia, they would sell off their share, warm their hands with this as well, and run off quickly, leaving us with a devastated sector?

This is not very likely, either. Speculators would not waste their energy on building a special alumina terminal at the port of Vanino. These expenditures are too long-term, and they are made only in the event that there is long-term dependability and confidence of a return.

One conclusion is obvious. It is very likely that the real owners of the offshore firms from Monte Carlo are people we already call "the new Russians." If this is assumed, everything falls into place: the professionalism, the Vanino terminal, and the legal shell of an offshore firm as camouflage. This is reassuring in a certain sense. If there is a problem in the world market, Russia will not be the first to have idle combines. On the other hand, apprehensions remain; after all, our dependence on imported alumina is too great. Nothing can be done, however, because everything amounts to a struggle for sources of raw material, a struggle for markets, as the classics of Marxism-Leninism have written, and within the framework of this struggle, the domestic capital which is pulling "the aluminum cart" appears to be appropriate for now. At the same time, doubts and uncertainty remain. After all, we are seeing only a small piece of a long chain, and the beginning and

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end of it are not in our hands. We do not know the conditions of the contracts with the sellers of alumina which our tolling partners from Monte Carlo are concluding. What is the period of time, what are the volumes, and what are the prices? In order to be truly confident that various surprises do not await us, these questions must be clarified and there must be long-term contracts with the suppliers of alumina, otherwise the risk of Russia being cut off from its sources of raw material, especially against the background of high prices, will be quite high.

There is no question that the Russian Government is aware of all the complexity and instability of the situation. A session of the commission on operational matters held on 14 March approved the concept for aluminum exports this year submitted by the Russian Federation Ministry of Economics and confirmed the target figures, including for tolling. In this case, special attention was given to the fact that in adhering to the tolling contracts, steps are being taken to create financial reserves to provide for independent access to raw material sources without the offshore middlemen.

This is unquestionably a sensible decision in the present situation, but it will require roughly $1-1.5 million. We believe there is also another way out.

Much of Russia's money is in other countries. It belongs to the same "new Russians." We are exerting titanic efforts to attract foreign capital to the country, and we are not giving attention to the tens of billions of dollars held by our fellow citizens abroad. The State Duma is not even venturing to discuss the decree which the press has tentatively labeled "amnesty for the new Russians" in the event that their funds are invested in Russia's territory. Meanwhile, the government is adopting a decree on declaration of funds put into monetary privatization for legal entities and natural persons. Extreme measures are also being proposed. They are saying that big money is just dirty money, mafia money. Those who hold it should be put in prison and their assets should go to the treasury. If Russia makes such a decision, we will be put in this situation practically instantaneously: no people, no money , and as a result, no jobs and no taxes. For your information, the cash obtained through crime—prostitution, drugs, etc.—is what they call "dirty" money most often in international usage. The funds in banks, however, are legal by definition because they belong to persons and firms on completely legal grounds.

The expression that Russia has been turned into "a laundromat for laundering dirty money" has become common in journalistic use. The authors of these sensational lies would not be opposed to taking an interest in the work of offshore banks (and these do exist in the world) in the Cayman Islands, between Colombia and the United States, or in respectable Switzerland, with numbered accounts. So there are enough launderers in the world, even without us.

Alas, Russia exports more money than it receives. The budget cannot make ends meet, pensioners are begging and collecting bottles, kids are washing cars and trading in traffic jams instead of studying, and because of Russian money, the price of an offshore product has risen by five times over three years. We are debating whether to let our money into Russia or let it create steam in some other economy.

It is very apparent where this point of view is leading in the example of tolling operations. Be prepared, Russia, to substitute another $1.5 billion for your own money.

Our approach does not mean forgiving everything, by any means. While it has been proved that dirty money has been taken out of Russia as the result of operations contrary to our laws, there are no "amnesties" but responsibility and sanctions in conformity with the law. If there are no claims against a person or a firm under our laws, however, why are there unnecessary questions? Let the governments of those countries where the money is leaving think about this.

Experience shows that the money of real mafia structures, which is dirty at first, is not so hard to recognize if it has been "rinsed" in international finance. This money is not put into large-scale, complex projects where professionals are required; this money is destined for casinos, nightclubs, and show business. Overheating in this sector of the economy is obvious, and we seem to have resigned ourselves to it. Lengthy debates are already obstructing repatriation of Russian money from other countries, which is ready to be put into major, large-scale projects. The example of the aluminum industry is very striking in this sense.

If we want to beg the IMF for even more credit, which they give not in the form of currency but "stand by" (something close to a collection of promissory notes with different periods for repayment), then let us leave everything the way it is. If we do not want to ask for a very small part of what is exported but we propose to make use of what is ours, then let us find a solution. Then we will stop wondering who these "aluminum kings" of ours are.

*Nuclear Research Center Units, Accidents Viewed

954E0671A Moscow MOSKOVSKIY KOMSOMOLETS in Russian 8 Feb 95 p 3

[Article by Svetlana Lyuboshits: "The 'Hood' Is Poorly Sewn: The 'Peaceful Atom' in Schools and Homes"]

[FBIS Translated Text] *This is no exaggeration. In addition to numerous nuclear power plants, generally built in Russia's most picturesque regions, the "peaceful atom" long ago came to reside in Moscow. And here it has things perhaps even easier than in remote corners of our limitless Motherland: In the capital is it hidden behind the inoffensive camouflage of scientific research. However, in the 1986-1992 period alone a total of 791 incidents occurred at Russia's 47 largest nuclear research facilities.*

Nonmilitary nuclear research is done in Moscow and the surrounding area at 52 nuclear research facilities. The people of Moscow are also constantly ready for various unpleasant events at any of the 1,500 enterprises that use ionizing radiation sources. Plus, 765 of these are quite diligently producing radioactive wastes.

Furthermore, a majority of Moscow's atomic landmarks should have been retired long ago. They were designed almost 50 years ago and no longer meet modern standards.

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And, as we all know, from time to time the service personnel do make mistakes. The reactors are fueled—how could there not be accidents and emissions?

Consider for example the Kurchatov Institute Russian Scientific Center. Its half century of scientific work has resulted in two hectares of the institute property now being occupied by temporary radioactive waste storage sites. According to estimates from the Russian Information and Analysis Center for the Prevention of Accidents at Atomic Power Facilities, part of the International Chernobyl Safety Foundation, these storage sites, which began to be used in the mid-1940's, now contain more than 200 metric tons of radioactive waste with a high level of cumulative radioactivity—58,000 curies, almost as much as the "gift" the Chernobyl disaster gave us!

Yet the institute remains in operation, and its storage sites continue filling up with spent fuel, just as before. Plus, the spent nuclear fuel is being buried without any determination of its level of radioactivity being made. According to the roughest estimates, the amount of cumulative radioactivity indicated for Storage Site No. 1 alone is actually too low by a factor of 20-30. Occasionally waste is also removed from the institute. In 1993 alone 200 metric tons of wastes were taken away for disposal elsewhere.

These outdated research units, which should have been dismantled long ago, are also capable of producing a great number of surprises. The problem is that not a single one of these reactors has a protective containment ("hood") that would keep any release of radioactive substances localized inside the reactor. The result is plain to see. Between March and May 1972 there were two accidents on critical pieces of equipment at the institute, resulting in the release of radioactive substances. Three people died of overexposure to radiation.

The second loop of the Russian Scientific Center's OR [experimental reactor] reactor was built using an open-loop cycle. It is cooled with water from an artesian well, and then that water is discharged unfiltered into the Moscow River. If the hermetic seal between the first and second loops is broken, radioactivity becomes dissolved in the water and enters the river.

No enterprises of this nature should be without protective zones surrounding them. The institute has one, but in the opinion of experts it could prove too small. That is because when maximum permissible emissions of gaseous radioactivity were calculated, those calculations were based on the presence of only four reactors, not the 25 that are presently located at the institute. Nevertheless, by agreement with the administrative district's public health service and the public health service of Medical and Sanitary Unit 12, the prefect of the Northwestern District approved the protective zone boundaries. Nothing to worry about: The radiation monitoring equipment at the institute will always produce the readings its administrators want. In fact, everyone at the institute has forgotten the last time all that equipment was calibrated and certified.

But the biggest surprise that is quietly being cooked up for the people of Moscow comes from the Energy Equipment Scientific Research Institute, located on Verkhnyaya Krasnoselskaya Street This institute is rapidly modernizing its existing IR-50 research reactor. Cold in the winter? Well, the reactor heats the institute and several adjoining apartment buildings and other structures. Hot water supply is provided at the same time. Is that not a beneficial use for the peaceful atom? Who cares if the Moscow agency that oversees the nuclear and radiation safety of research reactors, a division of Russian Federal Oversight of Nuclear and Radiation Safety's Central District, has shut down the reactor in question twice in the past two years. Yet work on increasing the reactor's power by a factor of 10 continues. The institute's administration points to potential heating and electric power savings. But no one has asked the institute's neighbors whether they want their apartments heated by the peaceful atom. Personally, we have no doubt as to what their answer would be.

In comparison with "gifts" like this, everything else seems like mere pranks. For your information, we would like to report that:

—on the grounds of the Institute of Theoretical Experimental Physics there are points with radiation levels above 3,000 microroentgens/hour (might it be time for some decontamination work?);

—since 1967 during repairs to the IRT reactor at the Moscow Engineering and Physics Institute, the water used to cool the first loop has been discharged into underground reservoirs. During that time the tanks' bottoms have become covered with radioactive silt. Prior to 1993 this contaminated water was not tested in any way and could easily leach into the soil, mix with ground water, and enter the Moscow River.

If there were any money available, Muscovites could be a little less concerned about these neighbors of theirs. Many of the units have long been on so-called "warm standby" and are no longer being used for research. It is just that no one knows what to do with them, or how to neutralize them. The reactors are consuming the budget funding that goes for the basic maintenance required to keep the units in working condition. A year or two from now these "scientific" facilities will become radioactive nuclear dumps. Yet the "Comprehensive Environmental Program Through 2005" adopted last year by the Moscow city government does not even address the problem. And Russian Federal Oversight of Nuclear and Radiation Safety is pretending that all is calm in its empire.

Experts with the Information and Analysis Center for the Prevention of Accidents at Atomic Power Facilities say that it is not enough just to engage in science—we must think ahead about how and in what sequence we will put our work places in order. So that even the greatest scientific discoveries will not be made at the terrible cost of human lives.

As for the fact that there should be no place in Moscow for reactors that do not meet nuclear and radiation safety standards, that is actually embarrassing to talk about. Only a fool would not comprehend that.

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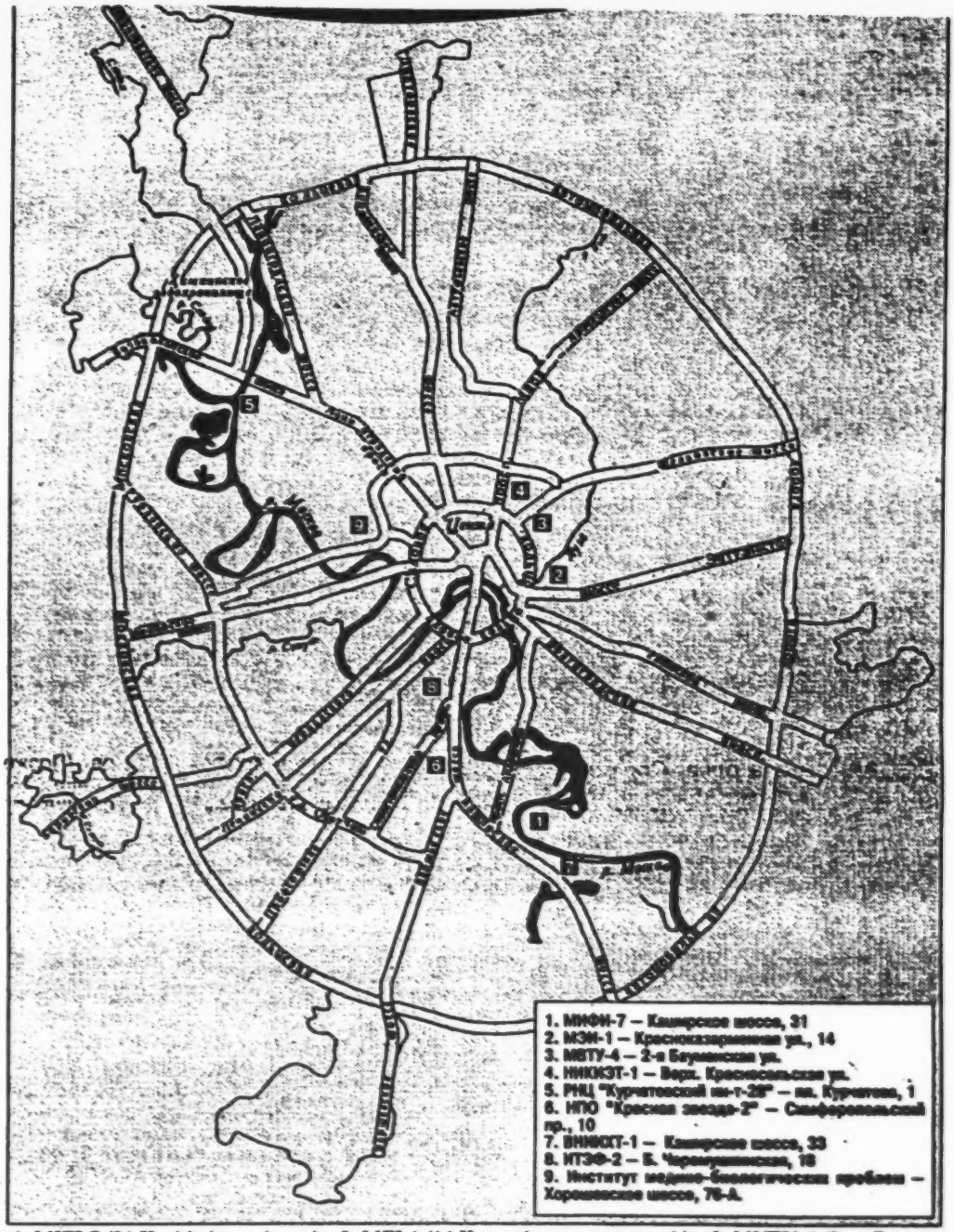

Key:—1. MIFI-7 (31 Kashirskoye shosse)—2. MEI-1 (14 Krasnokazarmennaya ul.)—3. MVTU-4 (2-ya Baumanskaya ul.)—4. NIKIET-1 (Verkh. Krasnoselskaya ul.)—5. RNTs "Kurchatovskiy in-t-28" (1 Kur. ...tov Square)—6. NPO "Krasnaya zvezda-2" (10 Simferopolskiy pr.)—7. VNIIKhT-1 (33 Kashirskoye shosse)—8. ITEF-2 (18 B. Cheremushkinskaya ul.)—9. Institute of Medical and Biological Problems (76-A Khoroshevskoye shosse)

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Ionizing Radiation Sources	Organizations and Agencies							Total Number
	Kurchatov Institute Russian Scientific Center	MIFI	MEI	NIKIET	ITEF	VNIIKhT	Krasnaya Zvezda PO	
Accelerators	10				2			12
Thermonuclear Units	4							4
X-Ray Units	10							10
Hot Chambers	40				1	1		42
Radiochemical Laboratories	25				5	2		32
Radioactive Waste Storage Sites	16	1		1	1	2		20
Ionizing Radiation Source Storage Sites	4	1	1	2	1	3	1	13
Total:								153

*Sociological Analysis of Current Reforms

954E0709A Moscow PRAVDA in Russian 15 Mar 95 p 4

[Article by Boris Slavin and Vladimir Sukhodeyev: "The Reforms' Express Train Is Going Nowhere Fast: Analysis and Forecast"]

[FBIS Translated Text] **Scholars from the Russian Academy of Sciences' Socio-Political Research Institute [ISPI RAN] are conducting a sociological study of the reforms being carried out. Today we are publishing in condensed form the materials of the ISPI RAN's latest report from the series "The Social and Socio-Political Situations in Russia: Analysis and Forecast, 1994." The report was prepared under the supervision of Academician G.V. Osipov. The compiling authors are V.K. Levashov and V.V. Lokosov.**

By the end of 1994, the reforms' conceptual crisis was clearly apparent. Authority, and right behind it, society, under the burden of the accumulated errors and miscalculations, are continuing to move along a catastrophic trajectory, losing the potential for democratic development and the freedom of choice in the future. The country's national interests and the state's security have been threatened. These realities have already begun to be discussed openly at the level of the mass consciousness, which is changing the socio-political situation in a cardinal fashion.

The analysis of the social and the socio-political situations leads to two general conclusions. The first—in 1994, the process of the expropriation of power from the people took on irreversible features. The second—along with the process of the "changing of formations," there began the updating of the socio-political importance of the "changing of the elites," the radical reformers in authority, who have carefully protected the citizens from the knowledge of the societal-formational goals of the reforms and frankly stated publicly this year that they are building a capitalist society.

In 1994 on the whole, the authoritarian and comprador nature of the radical reformers' mentality with respect to the vision of the orientation of the reforms and of the prospects for the development of Russia's society became apparent. At the same time, this was a year of accumulation of spiritual and political potential for the transition to a qualitatively new stage of development based on the repudiation of the imposed reform model and the turn toward the transformation of Russia based on its historical traditions, national interests, and security.

Threats to Economic Security

The elimination of the ideological conflict of two political systems does not mean the coincidence of the former opponents' economic interests. Competition in the world markets becomes ever more acute in nature, which establishes the necessity of protecting Russian economic interests, now and in the future, by all permissible means.

The reform years have become an important stage in the formation in Russia of the bases of a market economy. Among the reforms' successes, first of all, are the liberalization of prices, the gradual approach of their structure to world structures, the progress in the conducting of privatization, and other items. But, if the level of the risk for the country's further economic development is taken as the basis for the analysis, then the assessments of the reforms' results will be far from optimistic. For almost all the economic security indicators, negative trends have been observed, whose course, despite the "economic growth points" and the "stabilization zones" which the radical reformers find every year, has still not been successfully overcome. The majority of specialists have come to the conclusion that the continuation of the economic reforms' former course will lead the country to colonial dependence. In Russian society and, all the more so, outside it, there are, of course, forces that are interested in the prospect of such colonization or are indifferent toward it. But it is not customary in democratic societies to protect such minority interests.

At the beginning of 1994, an unprecedented production slump occurred in the economy. In speed and depth, there has never been anything like it since the times of the war years, 1941-1945. Thus, over 1994's first quarter, the volume of the gross domestic product, in comparison with the preceding quarter, fell by 20 percent, which was greater than for all of 1993. By the end of 1994, the drop in the

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GDP, in comparison with the 1989-1990 levels, amounted to around 50 percent, which goes beyond all the limits of a "tolerable" drop in production. The trend toward the de-industrialization of the economy represents a serious threat to Russia's national security.

The mass shutdown of enterprises, including large structure-forming plants, remains a key problem for industry. Removed from the reproduction system, in fact, have been such vitally important sectors as agricultural, construction, and highway machine building, instrument building, the electrical engineering industry and the production of pipes, plastics, and chemical fibers. The situation is becoming especially threatening, inasmuch as the economy's deformed structure, which has arisen as a result of the crisis slump, is being steadily strengthened through the price ratios and the replacement of domestic goods by imported ones.

Similar processes are also occurring in agriculture. Despite the elimination of the state monopoly on land (by the end of 1994, 85 percent of the agricultural lands were under the ownership of individual citizens and collectives) and the formation of individual farms, the economy's agrarian sector is continuing to deteriorate. In 1994, according to the estimate of the RF Goskomstat [Russian Federation State Committee for Statistics], the volume of gross agricultural output declined by 7 percent in comparison with 1993, including the output of plant cultivation by 6 percent and that of livestock farming by 8 percent.

Mass deliveries of foodstuffs from abroad are occurring at the same time. According to the International Federation of Agricultural Producers' estimate, a 30-percent level of dependence of a country on importing food products makes it strategically vulnerable. Russia crossed this threshold back in 1993.

The investment crisis has become one of the most important factors in the deepening of the socioeconomic crisis. Presently, the volume of capital investments in Russia amounts to just 27 percent of 1990's level, while this indicator is reaching 10-15 percent in machine building, light industry, construction, and agriculture. Inflation and the nonpayments crisis represent a large threat to economic security.

The preservation of exporting's narrow, raw materials orientation appears threatening from the standpoint of the stability of economic development and the prospects for the technological upgrading of Russian industry. All the processing industry's output amounts to only around 12 percent in exporting, while the exporting of high-tech goods amounts to approximately 1 percent. Typical for Russia is exporting's strikingly pronounced fuels and raw materials structure (around 80 percent of the overall volume).

The results of economic development beginning as of 1992 testify convincingly that the USA and other leading Western countries have managed to create conditions for Russia's integration into the world economy as a country that specializes in the exporting of fuel and raw material commodities and simple finished articles. It is evident that the West is attempting to oust Russian exporters from traditional markets and also to block Russia from world markets for those types of products for which it could present competition, especially with respect to high-tech goods.

Despite the unprecedented rate of the drop in production and many other factors that are adverse for national economic security, complete physical destruction of production capacities has still not yet occurred in Russia. The bulk of the skilled work force has been preserved. In another few years, the available scientific and technical potential may yield results. But, on the whole, the country's economy in 1994 operated under catastrophic conditions.

The Reduction in Labor's Valuable Significance

Recently, a precipitous drop in labor productivity occurred. According to the Makroekonlink research center's estimate, labor productivity over 1992-1994 fell by 38 percent. The sociological surveys' results have recorded a high degree of worker dissatisfaction with their work at all the investigated enterprises. The low wages, labor tension, the exclusion from participation in management and poor perception of the significance of the performed work are the most important components of overall work dissatisfaction.

The opinion that the main method of achieving material prosperity is associated not with labor, but rather with activities that contradict the law and ethics, has become a persistent stereotype in the mass consciousness. Regardless of the forms of ownership, conditions have been created in Russia under which a reduction in labor's valuable significance is occurring.

As a result of the voucher privatization, by the end of 1994, 110,000 enterprises passed into private (individual or group) hands and the nonstate sector has been officially recognized as the dominant one in the economy. The purely economic result of this fundamental change in ownership relations is inauspicious: No improvement has occurred either in production or in service. Thus, during the deciding of the matter of voucher privatization, the main thing was the socio-political motive and not the economic motive.

The economic power received during the redistribution of vouchers and shares became anonymous, nearly uncontrollable. Conditions had been created for the buying up of enterprises at prices which, according to the American experts' calculations, amount to from 0.1 percent to 1 percent of the value of similar American companies. The actual economic power shifted, at the same time, not to the Russian Federation's citizens and not to the 40 million nominal owners, but rather to the 5-6 percent of the population who also make up the new economic elite.

The lack of effective control on the part of the state over the origin and movement of capital and financial resources is leading to the criminalization of the economy. According to information of the Russian Federation MVD [Ministry of Internal Affairs], around 40,000 enterprises in the Russian Federation belong to criminal groups. The voucher program was an extremely profitable matter for a number of foreign companies, and the buying up of large blocks of shares was carried out basically through joint ventures.

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Although the first "voucher" stage of privatization went smoothly, it was not possible to fulfill its main ideological task—to create public opinion about the usefulness and fairness of the matter of the privatizers. Most of society did not accept the results of the new redistribution. It may be assumed that, after the second stage of the establishment of "strategic" owners, the soil will finally have been prepared for the next social rematch.

The Stratification of Society Based on Income Levels

With the beginning of the economic reforms, the public's actual incomes fell, according to various estimates, by factors of 2-3 and, for certain categories (rural workers, scientific associates, and pensioners), by factors of 6-7.

According to various estimates, the incomes of 20-40 percent of the population in 1994 were below the figure for the minimum living wage, including the incomes of around 10 percent of the population, which would not even cover the cost of the minimal consumer basket.

The public's self-appraisal of the standard of living is of a persistent nature. Numerous surveys have recorded approximately the one and the same picture: 5-7 percent of Russian citizens consider themselves to be well-off. The rest have only enough for food and clothing (approximately 30 percent), only enough for food (45 percent) and around 20 percent cannot feed themselves at all. According to the official data, 40 million Russian citizens are in need of housing. The children are suffering, first and foremost, from a reduction in the standard of living and the quality of life.

Simultaneously with the overall trend toward a reduction in the standard of living, the income-based differentiation of the population is increasing sharply. The property-based stratification of citizens is occurring by production sectors, by regions, between cities and villages, and within enterprises. The basis of these processes are the establishment of market relations and the formation of the new social structure. The process of regional differentiation is creating, in addition to the political and national factors, economic factors for the stimulation of regional separatism.

The intensive differentiation of the average wages proceeded across the economy's sectors. Thus, in October, this indicator varied across the country from 134,800 rubles [R] in agriculture to R446,200 in the sphere of banking services and insurance. In industry, the spread was even more appreciable: from R145,100 in light industry to R1,013,700 in the gas industry. The workers of the basic producing sectors received wages significantly lower than those of financial and state workers, which is unusual for a country that is attempting to get out of an economic crisis. And the disastrous state of Russian science and education is dooming to failure any plans for improving the domestic economy.

The income-based stratification of society has exceeded the maximum permissible norms for law-based states. Thus, in 1994's fourth quarter, 10 percent of the most prosperous layers of the population received incomes that exceeded those of the least prosperous layers by a factor of 15. The experience of other states testifies to the fact that a 10-fold difference in the incomes of the richest and the poorest layers of the population is a critical threshold indicator, the exceeding of which is fraught with social and political shocks in society.

Russia today is a country of striking social contrasts. History knows examples when poor countries have experienced rapid economic growth but, in the end, such growth did not guarantee the majority of them real economic independence and security. In these countries, a type of comprador "dependent economy" emerged. They remained on the sideline of world technical and cultural development. And the dependence on foreign markets meant not the integration of the national economy into the world economy, but rather the creation of conditions for the determining impact of foreign influence.

The Conflict-Caused Social Structure

In 1994 in Russia, basically, a qualitatively new, extremely polarized social class structure was formed, with poles in the form of a bourgeoisie on the one hand and semi-declasse hired workers on the other, with a highly unstable middle class, which would be more accurately called a middle social layer. The property-based stratification of society, accompanied by the destruction of the state system of social protection of Russian citizens, has assumed a most profound nature.

The polarization is not limited to social-class and propertied slices of society, but, for a number of indicators, has gone through the systems of relations, "authority—the masses," "the center—the regions' power structures," "the city—the village," "the superethnos—the ethnic groups," "the national bourgeoisie—the comprador bourgeoisie," of the corporative or syndicalistic hired workers in connection with one or another form of ownership. Society is continuing to split into a law-abiding part and a rapidly growing criminal element, into relatively prosperous people who have housing and jobs and socially deprived persons. In light of this, the antagonization of society is assuming a total nature and is fraught with explosive conflicts or its gradual disorganization.

The changes in the socially stratified structure of society do not testify to the creation of a social base for democratic reforms and to the strengthening of the social organization of Russian society. Rather, the reverse: The reforms, in fact, have been deprived of their formerly significant social base, while Russian society no longer has the stable social foundation necessary for the realization of a substantial social life.

In 1994, there was stratification not only of society as a whole, but also of its wealthy part. The incomes of entrepreneurs working for the domestic market fell, as a consequence of the slump in production and effective demand for domestic goods and of the increase in their production cost because of the sharp jump in prices for raw materials, energy, and transport. But the incomes of businessmen working for the foreign market rose even higher, as a consequence of the increase in the scope of raw materials exporting, wholesale importing, the dumping of foreign goods, the selling abroad of shares of Russian enterprises,

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which were bought up on the cheap during the voucher program, and other legal and illegal transactions.

The final transformation of the former party, state, and economic nomenklaturas of the "management corps" into a special layer of middle and upper bourgeoisie was the most important feature of the social structure's formation in 1994. In addition to the arbitrarily established high salaries, the managers and the administrative clique received pretty good chunks of ownership in the form of blocks of shares during the privatization process. The senior officials in the center and the regions actively participated in the redistribution of ownership and are readily combining, despite official protests, administrative activities with commerce. An active merging of the two main elite groups—the neo-bourgeoisie and the new nomenklatura—is occurring. They also make up the dominant upper class in economics and politics.

The flattened-out wave of small business bankruptcies (which is expected to be followed by a new, more powerful wave) drove many of its representatives to the brink of poverty. The highly skilled workers and specialists who made up a quite significant propertied middle layer turned out to be in even greater poverty. Their place in this layer has been occupied by representatives of the criminal kingdom, participants in "shuttle" commercial transactions with foreign countries and certain categories of other merchants.

On the whole, society's social structure, as before, is continuing to intensify the destructive antagonistic potential. The superficial indifference of the bulk of the population to authority, which has been staked on violence and wealth and which has set itself against society, conceals a social protest that is looking for a form for its realization.

The socially deprived persons (the unemployed, refugees, the homeless, the indigent, and others) form a layer that is complex in its makeup. Their numbers are increasing steadily, while the impact on the development of social processes is intensifying. According to official data, at the beginning of the year, there were around 1.1 million unemployed persons and, by fall, their number had increased by a factor of 1.5. These data do not take into consideration the hidden unemployment, which is colossal in its scope. The results of sociological surveys have unambiguously recorded the public's growing fear of losing their jobs. The majority of citizens (67 percent) believed that, if they lose their jobs, it will be difficult for them to find new ones. The status of an unemployed person is considered in public opinion to be something shameful.

Former prisoners are becoming a spontaneously organizing core of the socially deprived, and this is why the degree of criminality of this layer is extremely high. We are talking about a multi-million contingent, which is beginning to represent a serious threat to all of Russian society. The means for solving this problem are well known: the maximum possible level of employment, a system of education, prevention, and social adaptation, and a finely tuned mechanism for legal regulation.

The Depopulation Process

For nearly three decades in Russia, the simple reproduction of the population was not met, but the potential accumulated in the demographic structure, which was still capable of being conducive to an increase in the population, decreased from 15.8 percent in 1960 to 2.1 percent in 1990. By 1992, the demographic potential was completely exhausted. The depopulation process had become a reality.

The special features of Russia's depopulation lie in the fact that, in contrast to certain Western countries, where the negative natural increase is associated only with the extremely low birthrate, in Russia, against the background of the low birthrate, the level of the mortality rate has been rising steadily. In 1993, the natural population decrease amounted to 750,300 persons, while the number of deaths was greater than the number of births by a factor of 1.5. In 1994, there was a further intensification of this trend. Inasmuch as the birthrate remained at the previous year's level, the increase in the mortality rate led to a further natural population decrease of up to 950,000 persons, while the number of deaths exceeded the number of births by a factor of 1.7.

One of the reasons for such adverse changes is the continuing process of the aging of the population, which intensified at the beginning of the nineties because of the decrease in the number of children and teenagers up to 15 years of age. At the beginning of 1993, the contingent of pension-age persons amounted to 19.8 percent of the total number of Russian citizens. By the beginning of 1994, the number of pensioners grew by 334,000 persons, or by 1.1 percent. But the main influence on the increase in the mortality rate is being exerted by the sharply increased losses not of old people, but rather of the country's able-bodied population. Currently, the share of able-bodied adults in the overall number of deaths has reached 30 percent, while, at the end of the eighties, it varied within the range of 25-26 percent. The reasons for the mortality rate have a clearly marked social tint and are an indicator of the progressive trouble in society.

The increased migration flow from the countries of the near abroad cannot cover the natural population decrease.

The current medical and demographic situation represents a threat to Russia's national security, and the main thing is the rate of its deterioration. A stable trend is being observed toward an increase in illnesses for the majority of disease groups. The aggravation of the crime situation, the weakening of labor discipline, and the spread of drunkenness and alcoholism have led to an increase in domestic and occupational injuries. The level of the public's medical service has fallen. The state of the children's health is causing a special hazard.

Many of the public's illnesses are associated with the deterioration of the ecological environment.

The Status of Crimes

Over the course of January-October 1994, 2.1943 million crimes were recorded in Russia, which is 4.3 percent lower than the corresponding indicator for 1993. Against the

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background of the overall decrease in recorded crimes, there was an increase in the number of premeditated murders, aggravated assaults, robberies involving house break-ins, and other more dangerous offenses. Criminal activities in the individual regions differ substantially.

A powerful influence on the dynamics of the recorded crimes continued to be exerted by the long-term macro-social factors, the most substantial of which included the unceasing production slump, the growth of unemployment, the sharp, income-based stratification of the population, and the destruction of the family as the natural and basic cell of society.

The outlined trends toward an increase in the share of women in crimes, of persons without a permanent source of income (including unemployed persons), and of group and "drinking-related" crimes represent a danger to society. The increase in crimes among juveniles is alarming. The continuing dissemination in the youth medium of the socially attractive myths of quick enrichment and the "good" life is contributing to this.

The criminal dealings in narcotics, weapons, antiques, counterfeiting, the theft and sale of vehicles and rockets, and other things are becoming a noticeable sphere of the activities of organized crime.

The danger of the buildup of a deviant potential has become a nationwide problem. Thus, the number of suicides over the last three years increased by a factor of 1.5. The social consequences of ignoring this problem further may have a serious impact on the socio-political situation, in particular, and may be reflected negatively in the formation of a new stratification structure and in the electorate's political preferences.

Geopolitical Realities and the Eurasian Idea

The Russian state must solve the basic problems of self-determination and the recognition of ethnic interests under geopolitical conditions that are completely new for it. After the withdrawal in 1994 from Germany of the largest group of Russian troops in Europe and the transfer to Ukraine and Belarus of the troops and equipment of the most battle-ready military districts, Russia significantly weakened its influence in the westerly direction and was forced to "retire" to the heart of the Eurasian continent. A similar situation of geopolitical displacement occurred in the south, where new, unstable states have emerged, whose economies are in a profound crisis. But even the modern Russian Federation, which was formed on the basis of the Soviet Union's administrative boundaries, remains the object of territorial claims by other countries. The Baltic States have stated most directly their territorial claims. Japan has submitted official claims to Russia.

The Russian-Chechen military conflict, which may lead to a weakening of Russia's influence on the Caucasus region and the breakup of the Russian Federation along the Turkic-Islamic watershed, is playing a special role in the new geopolitical situation. If the situation in the Caucasus does not return to normal, then the future of Russia as a unique multi-ethnic and multi-religious state will be threatened.

Along with the "near" geopolitical problems, Russia's "far" geopolitical problems are being aggravated as well. In 1994, relations with the United States, on which the radical reformers placed the main strategic stake, worsened. America does not recognize Russia's spheres of interest outside its borders.

The creation of new Russian geopolitics will be associated in one way or another with the development of the Eurasian idea. And, in this connection, the formation or restoration on a different basis of a Eurasian, post-Soviet market as an alternative to possible international isolation is a necessary step of Russia's geopolitical strategy.

Authority Relations

The strengthening in the country of the institution of the presidency was the leading trend in the political process in 1994. The constitutional formalization of the presidential republic as the form of the government in the referendum in December of 1993 and the elections for the Federation Council and the State Duma broke the political deadlock between the legislative and executive branches of authority, depriving the opposition and regional elites of the opportunity to play at being a balancing force between the highest organs of power.

However, by the end of the year already, factors for the destabilization of the new form of state system had appeared. The transition of actual power to the staff and administrative organs of the president's "entourage" stimulated the inconsistency of the political course and the inadequacy of a number of presidential edicts, which subsequently had to be refined, to have the interpretation changed, or even to be rescinded. The trend of the redistribution of authority led to a covert conflict between the presidential entourage and the Russian Federation Government, giving rise to staff intrigues, and the very course of the reforms became, in fact, the hostage of the intrigues.

The Russian Federation Government was involved in the political conflicts less than in the past. But the opportunity they received to concentrate to a greater degree on economic activities did not have a perceptible economic return. The economic transformations' negative results have restricted the freedom to engage in socio-political maneuvering and have made the government even more dependent on the presidential structures.

A key point in the year's political process was the establishment in the Russian Federation of a new system of legislative authority. Each house of the Federal Assembly has managed to achieve political stability within the system of authority relations and to find its own political countenance. In contrast to the past, they managed to avoid confrontations within the system of the highest organs and to direct the settling of contradictions into the channel of parliamentary forms of political struggle.

The planned closer coordination of the actions of the highest organs and branches of authority was subjected at the end of the year to a serious test in connection with the Russian-Chechen military conflict. The military measures of the president and the government with respect to Chechnya, which were not coordinated with the Federal

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Assembly, led to new, large-scale bloodletting in the country. In light of the imbalance of powers, the authorities could not ensure the peaceful development of the socio-political process. The state routinely began to use arms in those spheres of society's life where it is impossible to achieve positive results, and threatened the lives of innocent citizens.

The Security Council became the organ for the concentration of the efforts of the president, the government, and the legislative authority. Its role became distinctly apparent in society during the period of the precipitous drop in the ruble's exchange rate in October and during the Chechen crisis. However, based on its functions and capabilities, the SB [Security Council] cannot replace the parliament and the government. Only public control can ensure the adequacy of a political decision, and not the secrecy of clandestine meetings of "councils," "politburos," and the like, no matter how competent they may be.

The regional system of authority relations also changed simultaneously with the central system. The analysis of the results of the elections held for the local organs of authority testify to the sharp increase in the political importance of the regional executive structures of authority.

Instead of the consistent realization of the democratic principle of the separation of powers, a system was created under which the powers of the executive authority have clearly hypertrophied. The lack of control over it on the part of the legislative and judicial branches of authority and the public is causing bureaucratization and the corruption of officials.

The Political Forces

The extreme instability of the equilibrium in the balance of the political forces was the leading trend of the year's political process. The utter defeat of the opposition during 1993's days of October, the overcoming of the political dual power, and the adoption of the new Constitution did not eliminate the problem of strengthening the new political system within the country.

The situation is being aggravated by the fact that there is no political buffer between the population, its main layers and the authorities in the form of politica' parties with prestige in society.

The authorities oppose society, and society opposes the authorities. This situation is fraught with the fact that, as before, the citizens' political will can, ignoring the offer of the parties and the movements, follow a candidate whose populism and charisma are better supported by the intellectual and financial efforts of his campaign team.

The problem of the upcoming elections for the State Duma and the subsequent presidential elections began to determine the behavior not only of the political leaders and political parties, but also of the orientation of the entire spectrum of political forces. What reflected this process in the tactics of the actions of the political parties were the sharp increase in attention to the drafting of those program theses that would draw to themselves the attention of the voters and the clearer specification of their own positions on key questions of political life. The understanding of Russia's need to follow its own path of development, which meets its historical traditions and national interests, became an important point in the political parties' search for a way to extricate the country from the crisis.

Sociological research indicates that, despite the political parties' efforts toward a more clear-cut determination of their own social base and electorate in future elections, the absolute majority of citizens, as before, does a poor job of examining the program theses of the political parties and movements. In the upcoming elections for the State Duma, the only political forces that could carry the day will be those which, by uniting the numerous parties and public political organizations, will create united voting blocs and will put forward a program and, the main thing, a leader, both of which will be capable of captivating passive voters who occupy the position of "detached observers" or deliberately fail to participate in the elections. This process had already begun at the end of 1994.

The Ethno-Political Situation

The ethno-political factor plays an invariably significant role, even if dependent on the economic and political situation, in Russia's development. Research results have recorded two phenomena that influence the stability of the ethno-political situation.

The first is the persistent orientation of the population of the Russian Federation's republics toward the principle of "one ethnic group—one state" and toward the right to secede from the Federation's structure. Around half of the representatives of the main ethnic groups in Abakan, Ufa, Petrozavodsk, and Yakutsk have expressed support for these ideas.

The second is the process of "regionalization" in the mass consciousness, which is associated with the proliferation of exaggerated assessments of the economic contribution of a region to the All-Russia "treasury." From 34 to 53 percent of those surveyed believed that their region is giving more to the others than it is receiving; 9-13 percent believed that their region is giving as much as it is receiving, and 10-22 percent believe their region is giving less. Ethnocentrism that has a state-legal status and the alienation of the regions from the center are creating favorable conditions for a new round of centrifugal trends in the Russian Federation.

The center, by granting the regions special powers or privileges, is ensuring for itself the short-term support of the various components, but, basically, this policy is encouraging ethno-regional domination and "disintegration-oriented" decentralization. The signing of bilateral treaties with Tatarstan, Bashkortostan, and certain other components is turning Russia into a treaty-based federation and opening up a legal path for the transition to a confederative system.

The consequences of this process have become apparent in the conflict between Russia and Chechnya. The federal leadership's extreme patience with respect to Chechnya's withdrawal from the Russian Federation's structure is explained not by its good will, but rather by the fact that,

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by sacrificing the integrity of the state in the struggle for authority to the "parade of sovereignties," it has itself, in fact, brought to power a number of regional leaders with an ethnocratic orientation, including D. Dudayev. The attempt undertaken to solve by force the problem of Russian-Chechen relations is hardly likely to be successful. At best, there will be a compromise version of an agreement on Chechnya becoming part of Russia on specific terms. At worst—the country may enter into a "Balkanization-type" process.

The Conditions for Effective Reform

A reform method should correspond to the objective requirements of modern social practice and theory. This means the adoption of a systems model of reform. In beginning the implementation of any reform, it is necessary to present its consequences and cost. The use of the "trial and error" method during the reforming of society seems criminal.

No less important for Russia's reform are the following conditions.

First, the unity of the strategy and tactics of reform and science.

Second, an adequate understanding of democracy. Democracy is not the authority of the mob, slogans, and appeals, but rather, the authority of the Law and the Constitution, before which all are equal.

Third, the purposeful formation of a social structure and the preservation and establishment of a middle class—a class of the absolute majority, which has an adequate standard of living and an adequate quality of life.

Fourth, the de-bureaucratization of the country. The administrative-command economy has been destroyed; in exchange, however, the country has received a bureaucratic expansion of the state machinery, which has been freed from bureaucratic party control. A mechanism for societal control over the new bureaucracy is needed.

And fifth, the demythologization of the public consciousness. This is the rejection of dogmatism, ideologizing, and social utopias, and the transition to responsible and independent scientific thinking.

The special nature of the current era lies in the fact that, now, the changing of authority for the sake of the authority itself is already unthinkable. The accession to power of any political force should be accompanied by the preservation and multiplication of the accumulated Russian values.

*Conflict Over 'Sirena-3' Air Control System Continues

954F1857A Moscow NEZAVISIMAYA GAZETA in Russian 16 Mar 95 p 4

[Article by Andrey Vaganov: "Open Season on 'Sirena-3'; Who Is Bothered by the Modern Air Traffic Control System?"]

[FBIS Translated Text] The collision over the project for creating the Sirena-3 automated air traffic control system is gathering more new details. NEZAVISIMAYA GAZETA (10 February 1995) published an interview with Aleksey Vedenkin, who is in charge of the financial means of the Russian National Unity Party (RNU). In this interview he stated that the RNU, through false companies, has acquired 20 percent of the shares in the International Technological Corporation Sirena (ITCS). (ITCS was created specifically for the purpose of realization of the Sirena-3 project.) It was also stated that soon the RNU would possess 70 percent of the shares in ITCS. However, as it turns out, Mr. Vedenkin was only bluffing.

The fact is that, according to the constituent agreement of ITCS, shares may not be given up without permission of the board of directors and a shareholders meeting. According to the information received at the directorate of the ITC Sirena, not one of its shareholders has filed a request for permission to sell his shares. Moreover, there are still no shares in ITC Sirena" as such: The shareholders only have certificates on hand. The managers of the Main Agency for Air Traffic [GAVS] and the Civil Aviation Main Computer Center (GVTs GA), to which Mr. Vedenkin referred, officially announced that they had not ceded their shares of stock to anyone.

Moreover, it is no accident that the GVTs GA is mentioned most frequently in the stream of publications on "Sirena-3." (For 1994 alone, there were over 100 articles on this topic published in the Russian press.) It was specifically this structure, being a shareholder in ITCS, which nevertheless practically from the very beginning of work on the project tried to discredit it, and was not overly squeamish about its choice of methods in doing so. Thus, for example, the credits for realization of the Sirena-3 project could be obtained from foreign banks back in September of 1993. But it was specifically opposition on the part of the GVTs GA leadership that kept a credit line from being opened. The lost profits are measured in seven-digit figures, in dollars. The arguments against Sirena-3 are rather unique: Supposedly, this system is too modern for Russia. The old one, Sirena- 2, will do just fine. All it needs is some cosmetic modernization to be performed on it. (Parenthetically, we will note that the data bank on international flights of Russian civil aviation is today located in the city of Atlanta [USA]—such is the technology which at one time was placed into Sirena-2. It is not suitable for use on international flights, and it is necessary to lease the foreign system Gabriel. In this sense, Sirena-3 is called upon to ensure maximal informational security and independence.)

Ten interdepartmental expert evaluations have confirmed: The Sirena-3 project fully corresponds to the national interests of Russia; Its technical and financial aspects do not evoke any serious comments. In the view of Minekonomika [Ministry of Economics] and Mintrans [Ministry of Transportation], the RF [Russian Federation] Government has given the project the status of a priority program. The Department of Air Transport Council Presidium decreed at the end of December of 1994 "to recommend to aviation companies, aviation enterprises, and agencies that they actively promote the development of the Sirena-3 project."

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However, the air carriers do not have to be agitated in favor of Sirena-3. They have long ago unanimously announced their interest in this project. And they announce it today, including also from a commercial standpoint. Paradoxical as it may seem, it is a fact: The realization of the project which is strategically important to the national economy and supported by the prime minister of the RF is being sabotaged by two intermediate structures—one of which, you will note, is a state structure—the GVTs GA, and the other the Aeroflot bank. In this situation, the GAVS, which could become the most active participant in the Sirena-3 project, is acting passively, to say the least. Yet the Main Agency for Air Traffic has 24 percent of the contributions to the statutory capital of ITCS. The GVTs and the Aeroflot bank have only 0.5 and 0.44 percent, respectively. The latest action against the Sirena-3 project was the joint letter by GVTs GA, GAVS and the Aeroflot bank in December of 1994, in which they announced their intention "to withdraw from the complement of founders of the AO [joint-stock company] Sirena..., to terminate their participation in the project, and to create a joint-stock company under the alternative project Polet."

As for the latter proposal, as the deputy chief of the GVTs GA, Valeriy Bykovskiy, himself admitted at a Department of Air Transport Council Presidium meeting, "Specifically, the project as such does not exist." And, as it became clear to specialists at the DVT [Department of Air Transport] from Bykovskiy's address, the description of the new project essentially repeats Sirena-3, but on a rather low technical level.

It seems that even the initiators of development of the Polet project themselves understand this. An indirect confirmation of this may be even the fact that for the period of August-November of last year alone, the GAVS transferred 325 million rubles [R] for financing Sirena-3, while the GVTs officially confirmed its participation in the Sirena-3 project in August. And here we are again—the same old story. Deputy Director of the Department of Air Transport V. Gorlov, at the already mentioned meeting of the DVT Council Presidium, noted that the GVTs has utilized a forbidden method: A state enterprise has spoken out against a state program, which was created at its own initiative.

What is the problem here? At a recently held press conference, ITC Sirena General Director Lev Ilchuk gave the following explanation of the metamorphosis that is occurring among some of the shareholders: They do not want to lose Sirena-2 as the source of good immediate income—that is the main reason for their resistance.

In fact, Sirena-3 largely breaks up the monopolism of GVTs GA. Why should some bureaucrat think about the future of the sector, when he already today has a warm and cozy place in Sirena-2? There is one other point. The Main Center for Data Processing of Sirena-3 is to be located in a building currently occupied by GVTs GA. The chief of the GVTs GA, Gerasimov, evidently believes that this area belongs to him personally. Perhaps this is why he so unceremoniously literally chased out specialists from the IBM company in February of 1994, who were quite legitimately performing the installation and adjustment of equipment for Sirena-3. We would like to remind you that the GVTs building is, after all, federal property, and in any case it cannot serve as a tool of blackmail. And even after the operational introduction of Sirena- 3, specialists of the GVTs GA are to be given over 200 jobs in the new system. Moreover, according to certain information, the GVTs GA management intends to hand the building over to the balance sheet of the Aeroflot Bank. Accordingly, if Goskomimushchestvo [State Committee for Administration of State Property] gives permission for this, the bank's statutory capital would increase by a huge sum. We might add that the bank itself, according to the signed credit agreement, was to have allocated $3 million for financing Sirena-3 last year. To this day, not one cent has been received from it.

According to the predictions of the International Civil Aviation Organization (ICAO), the most dynamic growth in the next few years will be seen in passenger transport between Europe and the Asia-Pacific region. Many of these trips may be successfully performed on Russian airlines, which promises the airline companies and the treasury considerable currency revenues. However, the intensive operation of these routes is possible only in the presence of an up-to-date system of air traffic control. Sirena-3 fully meets all of ICAO's requirements. So who stands to benefit from undermining the development of such a system?

*Minister Fadeyev on Reopening Railroad Through Chechnya

954E0609A Moscow ROSSIYSKAYA GAZETA in Russian 25 Feb 95 p 1

[Interview with Railways Minister G. Fadeyev by R. Ignatyev; place and date not given: "Route to the Caucasus Opened"]

[FBIS Translated Text] **Normal rail traffic to the Chechen Republic through Astrakhan began yesterday. Thus the route to the Caucasus is being opened anew.**

The conversation between observer Ruslan Ignatyev and Gennadiy Fadeyev, chairman of the CIS Council on Railway Transport, dealt with progress in restoring the Chechen sector of the Northern Caucasus Railway.

[Ignatyev] Gennadiy Matveyevich, how severe a blow was the closure of the Chechen sector of the railway to the Russian economy?

[Fadeyev] The rail lines of the Groznyy division of the Northern Caucasus Railway are part of the high-capacity electric railway route; that is the route from Dagestan, Azerbaijan, Armenia, and Georgia to countries of the far abroad. This is why it is difficult to estimate the significance of such an important artery in the normal development of the economy. The blocking of a transportation line with a large handling capacity caused great losses for Russia as well as for the countries of Transcaucasia. These losses, both direct and indirect, particularly those connected with the loss of sales of agricultural products, cannot be precisely calculated. They are estimated to be

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hundreds of millions of rubles. The situation that developed strongly promoted a rise in prices, primarily for consumer goods. It is not by accident that Russian President Boris Yeltsin, in his appeal concerning the situation in this region, designated that sector of the railroad line a lifeline not only for Chechnya but for all the republics of Northern Caucasus and Transcaucasia. The head of state considers restoring the Chechen sector of the Northern Caucasus Railway a top priority.

[Ignatyev] Long before the start of the armed conflict, however, the Russian Ministry of Railways halted the movement of all trains through the Chechen Republic, first temporarily and then permanently.

[Fadeyev] Yes, on our side that was a forced measure. Between 1991-92 individual incidents of crime on trains moving in that direction appeared to be random. In 1993, however, armed attacks on the trains, which included equipment damage, assumed a massive scale. As of September not a single train could get through Chechnya without incident. That year alone there were over 400 attacks, and more than 2,000 cars and containers were robbed. The situation showed no improvement in 1994. We then reported to the local leadership that as of 1 March 1994 the Ministry of Railways of Russia was temporarily discontinuing rail traffic in Chechnya until appropriate order is established.

[Ignatyev] What was the Chechen reaction?

[Fadeyev] By 2 March the republic's Cabinet of Ministers, together with law enforcement organs, outlined measures to stabilize the situation. An appropriate protocol was signed on 4 April. Still, unhindered passage of the trains was not ensured. That is why by the end of summer pillaging on the railway line assumed a particularly dangerous level. The robberies included participation of up to 1,000 individuals, most of whom were armed with automatic weapons. The stolen goods were moved out on trucks. When the military security service personnel resisted they were fired on or beaten. It became dangerous to travel on the passenger trains. In fact, two people attempting to protect passengers on the Mineralnyye Vody-Astrakhan train from robbers were killed.

[Ignatyev] What is the Chechen leadership doing?

[Fadeyev] Unfortunately they have not initiated any measures so far. More than that, the rulers were not only unable but did not want to prevent the chaos. Sabotage had already started by that time; bridges, thermal and transformer substations, and other facilities were blown up. Appeals to Dudayev led to nothing. On the contrary, the situation even deteriorated. Crowds of people blocked the tracks and openly robbed the trains. The guards were unable to fire at the people since the attackers included unarmed women.

[Ignatyev] Then you initiated the most extreme measure.

[Fadeyev] Under those conditions the movement of all trains through the Chechen Republic was stopped completely. We suggested that the clients deliver cargo to Dagestan and the Transcaucasian republics through other stations using motor transport, waterways out of Astrakhan, or going around using the Krasnovodsk-Baku ferry. All this, naturally, increases shipping costs significantly, leading to losses.

[Ignatyev] What were the losses of the railway resulting from combat operations?

[Fadeyev] Almost 500 kilometers of track was damaged as a result of the armed conflict. In some of the sections the track was rendered completely useless. The Groznyy Station suffered serious damage; buildings of the railway department, the locomotive and railcar depot, track divisions, all public health and supply facilities, as well as the electric power system suffered damage, and the track was also damaged. The settlement of railway workers, with nearly 200 houses bordering the station, was destroyed. Other stations in the large cities of Chechnya were also ruined.

[Ignatyev] What have you accomplished?

[Fadeyev] Almost 300 kilometers of track was restored and cleared of mines. The movement of trains was resumed in the Mozdok- Ishcherskaya-Chervlennaya-Uzlovaya sector as of 8 January 1995. Nine stations and transitory tracks were placed into operation. The Prokhladnoye-Chervlennaya-Uzlovaya passenger train is now running, and the necessary freight is arriving in Chechnya; this includes food, humanitarian aid, and equipment and materials for restoration work. The evacuation of refugees is also under way.

The Chervlennaya-Uzlovaya-Kizlyar sector has recently been placed into operation; this made it possible to run trains into the Chechen Republic through Astrakhan. Regular traffic began here yesterday, even though it is still somewhat premature to speak of any kind of a regular timetable or scheduling for the trains because Dudayev fighters are operating in that zone.

By the way, along the electrified sectors we are still forced to use diesel traction since illegal armed units continue to damage the electric power system, destroying insulators, wiring, and transformers, every day.

The track has been repaired and trains are moving as far as the Sleptsovskaya Station.

Presently we are satisfying all requests for allocation of passenger railcars for use as living quarters and offices by personnel of the Ministry of Railways, Ministry of Defense, Ministry for Emergencies, and those of other organs working on restoring the republic's national economy. More than 180 railcars were supplied. They are also used for housing refugees. Kizlyar- Saratov-Moscow and Naaran-Mineralnyye Vody trains were prepared to transport passengers from the zone of conflict. Another three trains were prepared and fully equipped for emergency transportation services.

[Ignatyev] What remains to be done?

[Fadeyev] First of all it is necessary to clear mines and restore the Chervlennaya-Uzlovaya-Gudermes-Kadi-Yurt sector. With its introduction the route to republics of

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Transcaucasia will be fully opened. Work here, however, is made especially difficult by the systematic attacks of bandits. Quite recently, for instance, several burning railcars were sent by unknown individuals from the direction of the Gudermes Station toward the bridge being restored. A disaster was narrowly avoided. In that same area railway troops engaged in a battle which lasted three hours. The situation is still tense around the Naursk, Solkushino, and Chervlennaya-Uzlovaya stations.

In other words work is being carried out under difficult conditions involving thousands of railway workers. Yesterday the Ministry of Finance appropriated 57 billion rubles for restoring the remaining sector of the Groznyy division of the Northern Caucasus Railway consisting of about 200 kilometers of track. I think that the Russian Ministry of Railways and the railway troops will ensure fulfillment of all tasks involved in restoring normal railway operations in Chechnya.

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National Affairs

*SOTSIS-Gallup Poll on Trust in Power Structures, Authority

954K0522A Kiev DEMOKRATYCHNA UKRAYINA in Ukrainian 25 Feb 95 p 2

[Article by Oleksandr Stehniy, lead scientific associate of SOTSIS-Gallup: "A Lone Soldier in the Field"]

[FBIS Translated Text] The results of public opinion polls in Ukraine in recent years show that there is a crisis of confidence towards government structures among the population of Ukraine. Thus, in January of this year, 40 percent totally distrusted the Supreme Council and 34 percent totally distrusted the government of Ukraine, while the number of those who expressed total trust in the highest legislative and executive branches of government measured 13 percent and 15 percent, respectively. One can hardly take comfort in the fact that the public shows more support for the church (47 percent) and the Armed Forces of Ukraine (40 percent) given that we are not striving to build a theocratic or totalitarian society, but rather a democratic one.

Do You Trust?...

	Totally trust	Somewhat trust, somewhat distrust	Totally distrust	Don't know
	(in percents)			
Church	52.2	26.3	10.9	10.6
Armed Forces of Ukraine	38.5	37.1	14.0	10.4
President of Ukraine	36.7	40.9	15.0	5.4
Ukrainian television	24.6	50.5	17.8	7.1
Ukrainian radio	24.4	50.1	16.9	8.6
Security Service of Ukraine	22.3	39.2	20.0	18.5
Ukrainian press	22.3	52.0	15.3	10.3
Russian television	18.8	51.8	20.8	7.7
Militia	18.6	36.2	38.7	6.6
Russian radio	16.6	50.0	19.2	14.3
Russian press	16.4	49.1	17.9	16.6
Courts in Ukraine	16.3	37.3	28.6	17.9
Procuracy	16.2	36.6	28.2	19.1
Western television	14.8	31.8	13.3	40.3
Local councils	14.6	38.3	38.8	8.3
Western radio	14.3	30.0	13.1	42.6
Trade unions	12.5	29.4	34.3	23.8
Government of Ukraine	12.3	46.0	33.1	8.6
Your local presidential representative	11.5	30.0	24.4	34.1
Supreme Council of Ukraine	10.3	44.6	38.3	6.9

An exception to the overall lack of trust in the highest government bodies is the attitude of the citizens of Ukraine towards President L. Kuchma, whom 36 percent of respondents trust totally. According to almost half the respondents, it is the president of Ukraine who has a decisive influence on the economic, political, and social situation in our state. But it appears that he is a lone soldier in the field, inasmuch as respondents ranked the mafia and criminal clans second in terms of power to influence the course of events in Ukraine (34 percent). The influence of parliament and the Cabinet of Ministers was confirmed by 20 and 22 percent of respondents, respectively. It should also be added that nearly one-quarter of those polled in December named shadow capital as the most important force in society. The fact that people believe that criminal elements play an important role in public life is extremely dangerous to the establishment of Ukrainian statehood. Rampant corruption and mafia activity can no longer be blamed on the intrigues of Communists, who do not wield complete power as they did in the past. Instead, the influence of democratic politicians has grown, and only if they take an active anti-mafia stand will the prestige and reputation of the new generation of politicians be restored.

As we know, in his programmatic speech to parliament, L. Kuchma presented his views on the ways in which the crisis can be surmounted, linking these with stepped-up market transformations. For a significant portion of respondents (37 percent) future relations between the president and the parliamentarians are too complicated to predict. Every fourth respondent believes that the majority of deputies will support the president's program, and approximately the same number of respondents believes that the number of

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supporters of the president's program in parliament will be balanced by the number of its opponents. Fourteen percent view these relations pessimistically. As we can see, the citizens of Ukraine on the whole do not expect a confrontation like the one between B. Yeltsin and the Russian parliament, which ended in bloodshed.

*Package of Laws Issued Aimed at Combating Drug Use, Trafficking

954K0535A Kiev DEMOKRATYCHNA UKRAYINA in Ukrainian 16 Mar 95 pp 1-2

[Article by Yevgeniya Nazarchuk under the "Creation of the Law" heading: "Obstacles in the Path of the Drug Trade. The Parliament of Ukraine Has Recently Adopted a Package of Laws Aimed at Fighting Drug Addiction and the Drug Trade"]

[FBIS Translated Text] The abuse of narcotics and psychotropic substances and their illegal distribution have recently become one of the most acute social problems of the countries of the world.

In Ukraine, drug addiction and companion abuses are becoming increasingly extensive; they are becoming major social factors, which influence the development of our society unfavorably.

As of 1 October 1995, more than 45,000 drug users have been registered. However, professionals maintain that the real number of drug users exceeds 400,000 (if the latent, covert effect of this process is figured in). Almost two-thirds of those who have been registered as drug abusers are younger than 30. Between 6,000 and 8,000 drug addicts are registered every year. Crime linked to drugs has also increased. In 1989, 4,000 crimes were committed, whereas in 1993—25,000. Last year, the number of drug-related crimes grew by 5.5 percent and came to 19,300, which accounts for almost six percent in the breakdown of total crime in Ukraine.

On the average, law enforcement organs confiscate almost 38 metric tons of narcotic substances a year. However, specialists believe that there are 550-650 metric tons in circulation. More than 70 percent of drugs illegally distributed in Ukraine are manufactured on its territory. The availability of considerable raw material resources (mainly poppy straw) lures to Ukraine drug pushers from other CIS countries. Figures in the international drug trade also show considerable interest in Ukraine. This interest is due first and foremost to the specifics of Ukraine's geopolitical location, imperfections in existing legislation, and unreliable customs and border controls. Drug syndicates are implementing designs to legalize ("launder") the profits of the drug trade through shadow and legal structures with a view to using them to corrupt the organs of power and administration.

Undoubtedly, under such circumstances it is necessary to take urgent measures, because the spread of drugs can pose a real threat to the interests of the state and health of the population.

Hryhoriy Omelchenko, chairman of the Commission for the Issues of Combating Organized Crime and Corruption, mentioned that, unfortunately, there has been virtually no clear-cut legal basis that could have made it possible to effectively combat drug addiction. So far, these issues have been regulated by numerous departmental regulatory acts.

Three draft laws have been submitted by the commission for consideration by the session with a view to passage in the second reading: "On the Distribution of Narcotics, Psychotropic Substances, Their Analogs, and Precursors in Ukraine," "On Measures To Counteract the Illegal Distribution and Abuse of Narcotics, Psychotropic Substances, and Precursors," and "On Amendments and Additions to Certain Legislative Acts of Ukraine on Stepping Up the Fight Against the Illegal Distribution of Narcotics, Psychotropic Substances, and Precursors."

As far as the law on the distribution of narcotics is concerned, it sets forth the rights and duties of state organs, legal entities, and citizens that take part in such distribution in the territory of Ukraine (incidentally, Ukraine is the first CIS country that has comprehensively regulated these issues through legislation). In particular, distribution procedures and control over distribution have been established; the process of manufacturing, using, and storing narcotics has been put in place. All advertising of narcotics in the mass media is forbidden.

The aforementioned draft laws also provide for norms regulating measures to counteract the illegal distribution of narcotics. Organs engaging in operational and detective activities will be given the right to make controlled deliveries and purchases of drugs, to inspect transportation vehicles and freight, to close down facilities with mass attendance by citizens (bars, casinos, restaurants, etc.) in which the incidence of consistent drug use has been detected. Procedures are established for the identification, medical examination, testing and treatment of individuals afflicted by drug addiction.

Besides, as H. Omelchenko stated, upon receiving a written request from state organs that are entitled to engage in operations and detective work, banks, as well as credit, customs, financial, and other establishments should provide, within three days, information and documents concerning operations, accounts, deposits, and domestic and foreign economic contracts of legal entities and citizens against whom operational and other evidence has been developed that testify to their complicity in the illegal distribution of narcotic substances. These establishments also must inform competent law enforcement organs about citizens whose one-time deposits and transfers of funds exceed 1,000 times the minimum wage. A failure of the officials of the above establishments, enterprises, and organizations to meet these requirements entails liability in accordance with legislation.

It is interesting to note that, once this law is passed, the law enforcement organs will be granted the right to inspect transportation vehicles, freight, and the personal effects of drivers and passengers on the basis of statements and notifications of violations of law associated with the illegal distribution of narcotics or if other reliable information to

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this end is available. If such an inspection is without foundation, individuals are entitled to receive compensation in the full amount of financial and moral damage suffered by them.

Corresponding amendments and additions have also been made to the Criminal Code, the Code of Criminal Procedure, the Statutory Violations Code, and others.

The approved laws incorporate relevant norms of international law and, as their authors believe, should form a major legal base for fighting the drug trade.

Economic Issues

*National Bank Head on Insolvency of Commercial Banks

954K0534A Kiev DEMOKRATYCHNA UKRAYINA in Ukrainian 16 Mar 95 p 7

[Article by Viktor Yushchenko, chairman of the National Bank of Ukraine, under the rubric "In the National Bank of Ukraine": "Viktor Yushchenko: We Must Get Through This Stage, Too"]

[FBIS Translated Text] It is already known that based on the results of last year, 17 commercial banks turned out to be insolvent. Fortunately, these are banks which do not have large assets, banks which do not have large numbers of clients and depositors. However, each instance of bank failure causes an unfavorable response not only on the part of its depositors, shareholders, and founders, but also from the public at large.

The commercial banking system should have a certain degree of liquidity and keep its creditor status at a sound level. The unjustifiably aggressive operation of a number of banks on the credit market and a large number of risky credit and foreign exchange operations are the main reasons for their loss of solvency. The managers of these banks must certainly be fully accountable to their shareholders and depositors for mistakes made.

It is always difficult to make a decision concerning a bank failure. However, we have a principled position on this, which is based on the fact that the founders of the bank and the members of the board of trustees, having signed the bankers' code, undertook to conscientiously comply with legislation in effect, to professionally manage the capital entrusted to them, and mainly to be accountable for the results of their operation.

In February 1995 the Board of the NBU [National Bank of Ukraine] approved a relevant resolution which envisioned urgent measures for financially curing commercial banks and restoring their liquidity and solvency (a rendition of this resolution is published in today's issue).

The insufficiently optimal condition of the banking system may be attributed to the corresponding condition of the economy. For this reason it is not at all surprising that certain commercial banks fail as sectoral enterprises go bankrupt. We should get used to this. We should also teach bank clients and depositors to exercise their right to freely choose a credit establishment for themselves, however, teaching them at the same time to be responsible for the results of their selection. Providing insurance for risky credit and deposits is the only thing we have to do, which will be done in the immediate future. To be sure, we have run into a number of difficulties along these lines (taxation, procedures for the generation of funds, etc.). For example, we propose to generate the credit risk fund the way it is done in most countries—out of the self-cost of banking products. However, the Ministry of Finance has yet to grant its consent to this.

What is going to happen to insolvent commercial banks?

With the understanding that the solvency of most commercial banks diminished through no fault of their own, as well as in view of the fact that the payment of 15 trillion karbovantsy to the budget last year in the form of a surtax on the banking system certainly weakened it, the decision was made to provide the necessary assistance to certain banks (meaning primarily banks that did not overextend themselves in risky credit and currency operations).

At present the NBU is compiling a list of commercial banks which have prospects for future development but require temporary financial assistance. The board of each bank must submit to the NBU a plan for reorganizing the bank. By a decision of the Supreme Council, emission in the amount of 2.5 trillion karbovantsy was effected in early March in order to reorganize the banking system. However, none of the funds have yet been disbursed because the NBU has failed to receive a single noteworthy plan for conducting reorganization. I think that there already will be such a list of commercial banks in the last 10 days of March, and certain credit committees or bankruptcy commissions will begin working on them.

The availability of highly liquid assets, and in any form, is the main prerequisite for the provision of assistance to any bank that has a liquidity problem. It was recommended that commercial banks with low liquidity hold extraordinary meetings of shareholders to develop programs for the reorganization of the banks. It should also be taken into account that the NBU, with a view to strictly enforced economies, has forbidden certain groups of banks to pay dividends, pay wages out of the proceeds received, or build bank premises with the inclusion of outlays in the cost. It has been recommended that strict economies of administrative and operational costs be enforced. These are quite harsh measures, but we understand that it is impossible to cure the banking system by banning the actions that brought about the crisis and providing some assistance. This is why a system of life support measures is being developed which provides for the maximum utilization of in-house reserves.

Yet it is not worthwhile to draw pessimistic conclusions from this. On the whole, things are not all that bad. At present, the banking system has sufficient liquidity. As of 1 March its level came to 56 trillion karbovantsy, which is twice as high as the volume of reserve requirements. However, such liquidity is sufficient for some banks and problematic for others. This is why restructuring of the banking market is on the agenda. The National Bank is not

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happy with a situation in which the statutory funds of more than 60 banks range from only 5 to 10 billion karbovantsy. The banking system should be developed by strong and stable banks. The strength of solvency is what is meant here first and foremost.

The latest events are yet again forcing us to consider how costly the consequences of an inconsistent and ill-conceived economic policy are and how dearly we have to pay for this over time in various areas of business. This is the second stage of reforms for banks in the last two years, and we must get through it, too.

*Ukrainian Economic Statistics for January 1995 Reported

954K0519A Kiev URYADOVYY KURYER in Ukrainian 2 Mar 95 p 9

[Report of the Main Administration for Economic Reforms of the Cabinet of Ministers of Ukraine: "The Economy of Ukraine in January 1995"]

[FBIS Translated Text] The beginning of 1995 is characterized by a continued decline in production in all sectors of the national economy.

According to preliminary data, **gross domestic product** decreased 12.8 percent in January as compared with the corresponding period in 1994.

The volume of **industrial output** fell 16.7 percent as against January of last year (it fell 32.7 percent in January 1994) and was valued at 348.7 trillion karbovantsi. The largest decreases in output occurred at light industry enterprises (39.2 percent), machine-building and metalworking enterprises (28.9 percent), fuel industry enterprises (28.5 percent), and building materials industry enterprises (25.1 percent).

A large number of industrial enterprises did not work at all in January or worked only a few days, which resulted in a substantial decrease in production volumes.

The process of **concluding contracts** for deliveries of products and acquisition of material and technical resources for 1995 is proceeding unsatisfactorily, thereby complicating the problem of supplying industries with raw materials, products, and energy resources.

As of 10 January, industrial enterprises had concluded contracts for the delivery of their own products for only 29.2 percent of the total projected delivery volumes (31.2 percent in 1994), and contracts for the acquisition of material and technical resources for only 23.9 percent of the required amount (31.7 percent in 1994). Every fourth enterprise in this sector has not yet begun to draw up contracts for this year.

Performance of Individual Branches of the National Economy

Coal industry enterprises filled their coal extraction quota 92 percent, including coking coal by 93.6 percent. They fell short of the projected targets by 667,000 metric tons of coal and 189,500 metric tons of coking coal. The volume of coal output fell 18.6 percent as against January of last year, that of coking coal, by 19.9 percent. Monthly targets were met by only 12 of 23 associations (10 in January 1994).

Coal delivery quotas were filled 93.7 percent (there was a shortfall of 373,400 metric tons); of these, the target for consumers in Ukraine was met 100 percent, for consumers in CIS countries and the Baltic states—39.9 percent (a shortfall of 122,400 metric tons), and for export—3.8 percent (a shortfall of 251,000 metric tons). In addition, 374,400 metric tons of coal were delivered under direct contracts to consumers in Ukraine.

The amount of **electric power** produced was 19.4 billion kilowatt-hours, including 8.5 billion kw-h by nuclear electric power stations. These amounts were 4.8 and 11.9 percent higher, respectively, than in January 1994. This happened because deliveries of fuel to electric power stations were stabilized in January of this year and also because all nuclear power reactors worked at full capacity.

The performance of enterprises in the **metallurgical complex** continued to decline in January. Compared with December of last year, the output of rolled metal decreased 2.2 percent and that of pipes—25.8 percent, while compared with January [as published], the production of the principal types of metal products (with the exception of pipes) fell 12-23 percent.

Output of most types of machine-building products by enterprises in the **machine-building complex** decreased as compared with January of last year, whereas in December the output of some types of products had increased or stabilized somewhat.

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	Rates of growth, decline (-), in percentage		Share of individual branches of industry in total volume of production, in percentage
	January 1995 as against January 1994	January 1994 as against January 1993	
Total in industry	-16.7	-32.7	100
including:			
electric power industry	5.0	-21.4	18.5
fuel industry	-28.5	-25.8	14.8
ferrous metallurgy	-13.3	-43.9	21.1
nonferrous metallurgy	-1.4	-23.3	1.5
chemical and petrochemical industry	-7.8	-41.8	6.6
machine-building and metalworking	-28.9	-39.3	13.0
timber, woodworking, and pulp and paper industry	-19.5	-29.1	2.2
building materials industry	-25.1	-48.9	3.2
light industry	-39.2	-40.4	3.4
food industry	-18.6	-20.3	11.3

Agricultural enterprises focused their efforts in January on preparing for spring field work and the wintering of livestock.

The farms are looking after winter crops and perennial grasses. According to operational data provided by the Ministry of Agriculture and Food, as of 1 January of this year, of the 6.869 million hectares sown with winter crops for seed, 2.776 million hectares (40 percent) are in good condition, 2.137 million hectares (31 percent) are in satisfactory condition, and 1.442 million hectares (21 percent) are in poor condition with sparse growth. Taking into account the condition of the winter crops that have been sown, it is planned to reseed and overseed up to 1.5 million hectares. Overall, the volume of spring field work will increase by 4.7 million hectares, or 30 percent, as against earlier projections. This applies primarily to Dnipropetrovsk, Zaporizhzhya, Donetsk, Luhansk, and Kharkiv Oblasts.

A lot of attention was devoted to providing agricultural producers with seed. As of 1 February, collective agricultural enterprises and state farms lay in 1.564 million metric tons of seed (112.7 percent of the plan) for spring grain and pulse crops (excluding corn and reserve supplies), including 771,000 metric tons (127.3 percent) of spring barley, 68,000 metric tons (112.1 percent) of millet, 39,000 metric tons (101.7 percent) of buckwheat, and 531,000 metric tons (98.9 percent) of pulse crops. They lay in 560,500 metric tons of pulse crops (107.7 percent of the plan) into the reserve funds. At the same time, farms in Zakarpattya Oblast and the Autonomous Republic of Crimea procured less grain and pulse crop seed than projected (89.4 percent in Zakarpattya Oblast and 99.3 percent in Crimea).

It is alarming that not a single oblast has adequate supplies of corn seed; the shortfall amounts to nearly 141,000 metric tons (the level of supplies measures 79 percent and in some oblasts only 5 to 10 percent).

The situation in **livestock husbandry** remains serious. Compared with January of last year, 11,400 metric tons (7 percent) less meat has been produced, 152,400 metric tons (21 percent) less milk, and 81.6 million fewer eggs (18 percent). Because output of livestock products has dropped, the amounts sold to procurement organizations and directly to consumers have decreased. Sales of cattle and poultry (live weight) amounted to 105,000 metric tons, which was 29,800 metric tons (22 percent) less than in January of last year; milk sold totaled 334,000 metric tons, or 199,400 metric tons (37 percent) less, and eggs—203 million, or 52.7 million (21 percent) less.

The amount of freight carried by public railroad transport totalled 26 million metric tons, or 15 percent less than in January and 11 percent less than in December of last year. The decrease in freight haulage affected all the most important product groups. Thus, the volume of oil and oil products transported decreased 23 percent, ferrous scrap metal—20 percent, cement—19 percent, and ferrous metals and mineral fertilizers—17 percent.

Public motor transport was used to haul 13.7 million metric tons of freight, or 22 percent more than in January and December of 1994.

Sea transport was used to carry 2.3 million metric tons of freight (2.3 million metric tons in January of last year, 1.9 million metric tons in December of last year).

Consumer Goods and Services Market

Nearly 75 trillion karbovantsi worth of **consumer goods** were produced, which was 19.3 percent less than in January 1994.

Output of nonfood consumer items fell 31 percent and amounted to 25.2 trillion karbovantsi in value (in January 1994 as against the same period last year, the rate of decrease was 38.4 percent). The production of many types of large household appliances and durable goods dropped substantially.

Production volumes of children's goods are continuing to drop. The reduction of baby carriages and toys fell to half the level produced last January, that of children's beds—to one-third the previous level.

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The situation in **light industry** enterprises was extremely strained at the beginning of the year. The output of all kinds of textiles decreased in January as compared with the same period last year by 12.5 million square meters, or 42 percent, including cotton fabrics by 7 million sq. meters, or 50.5 percent, woolen fabrics by 0.6 million sq. meters, or 23.6 percent, silk fabrics by 2.6 million sq. meters, or 46.6 percent, and linen fabrics by 1.3 million sq. meters, or 34.7 percent.

The situation with respect to the production of food products remains strained. Compared with January of last year, the **output of food products** fell 16.8 percent, including meat by 16.8 percent, butter by 33.6 percent, whole milk products by 33.2 percent, margarine products by 12.1 percent, canned fruits and vegetables by 62.8 percent, salt by 6.8 percent, confectionery products by 15.2 percent, and flour by 11.5 percent.

Although the output of virtually all food products decreased, that of children's products decreased most. Compared with January of last year, the production of Vitalact and dry milk mixtures, children's and dietetic canned fruit and vegetable products decreased by one half, children's cream to a third, and liquid and pastelike milk products to a quarter.

This has happened primarily because enterprises are short of raw materials and packaging materials and because of insolvency on the part of trade organizations and the general public.

The production of children's canned goods is in a very serious state. Last year, 29 million standard cans of canned fruit and vegetable goods were produced, or only 24 percent of the amount produced in 1993 and 17 percent of the amount produced in 1990. The output of canned vegetable products for children was 26-fold smaller than in 1993, of canned tomato products—sixfold smaller, and of fruit juices—fourfold smaller. Children's canned meat products are not being made at all.

Retail goods turnover amounted to 55.4 trillion karbovantsi, which was 7.7 percent less than the turnover volume during the same period last year (it fell 25.6 percent as compared with December).

Deliveries of food products to retail trade decreased as compared with last year. Deliveries of meat and meat products, milk and milk products, and eggs and egg products decreased 19-11 percent, of confectionery products—24 percent, of canned vegetables—43 percent, and of sugar—54 percent.

The volume of **paid services** was valued at 10.6 trillion karbovantsi and decreased 9.9 percent as against the relevant period last year.

Inflationary Processes

According to preliminary data, **wholesale prices** of industrial products rose 29.2 percent in January of this year as against December. Among these, the prices of fuel industry products rose 36.8 percent, including a 37.1 percent increase in the coal industry, electric power—17.3 percent, ferrous metallurgy—29.3 percent, the chemical and petrochemical industry—23.6 and 21.8 percent, respectively, machine-building—40.8 percent, the timber, woodprocessing, and pulp and paper industry—46.2 percent, the building materials industry—41.4 percent, light industry—14.2 percent, and the food industry—19.6 percent.

Purchase prices of agricultural products rose 49 percent, including those of cattle and poultry—by 54 percent, milk and milk products—by 60 percent, and eggs—by 16 percent.

The cost of hauling freight by motor transport increased 30 percent, while the cost of railroad transport remained the same as during the preceding month. The cost of passenger fares on public transport rose 13 percent.

The consumer market **inflation index** measured 121.2 percent in January (119.2 percent in January 1994).

Certain Aspects of the Living Standard of the Population

In January, as compared with earlier months, consumer product prices rose at a somewhat slower rate. Thus, in January prices rose 21.2 percent as compared with 72.3 percent in November of last year and 28.4 percent in December. The rise in the prices of food products outstripped the rise in the prices of nonfood consumer items and services: The prices of food products rose 23.2 percent (25.9 percent in December), while those of nonfood consumer items increased 18.8 percent (33.6 percent) and of paid services 21 percent (22.3 percent).

Among essential food products, substantial price rises occurred with respect to milk products—34 percent, butter and fats—30 percent, and meat, poultry, and fish—29 percent.

Among nonfood consumer items, a sharp jump occurred in the prices of books and newspapers (54 percent) and medicines (35 percent). The rise in the prices of footwear (16 percent), household goods (18 percent), cultural goods (19 percent), and clothing (24 percent) occurred at a somewhat slower rate than in December of last year.

Accounting for the rise in the prices and rates of paid services was mainly the increase in the cost of sending children to preschool institutions (a 2.1-fold increase), of sewing and repairing clothing (34 percent), and of services offered by cultural institutions (26 percent).

Financial State of Enterprises and Organizations

Credit obligations between enterprises and organizations in Ukraine and business entities in CIS countries and the Baltic states increased 6.1-fold in 1994 and on 1 January of this year amounted to 75.9 trillion karbovantsi; debt obligations increased 3.7-fold and amounted to 20.9 trillion karbovantsi.

The situation with respect to clearing operations grew markedly worse at the end of last year. Thus in December alone, credit obligations increased 1.4-fold and debt obligations, 1.3-fold.

Credit obligations of Ukrainian enterprises to trade partners in Russia increased sevenfold during last year and on

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1 January amounted to 71.1 trillion karbovantsi (93.6 percent of the total amount of indebtedness to CIS countries and the Baltic states). The amount owed to partners in Turkmenistan increased 5.2 percent and amounted to 1.2 trillion karbovantsi (1.6 percent of the total debt).

Credit obligations between enterprises and organizations in Ukraine increased 5.4-fold last year and at the beginning of the current year amounted to 683.4 trillion karbovantsi, including a sevenfold increase in bank loans for a total amount of 387 trillion karbovantsi; debt obligations increased 4.9-fold and amounted to 490.4 trillion karbovantsi.

The amount of **overdue credit obligations** on the part of enterprises and organizations on clearing operations and bank loans increased 13.5-fold last year and on 1 January 1995 amounted to 170.1 trillion karbovantsi. Of this sum, 154.5 trillion karbovantsi (91 percent) was owed on clearing operations between enterprises and organizations, and 15.6 trillion karbovantsi (9 percent) was the amount of overdue payments on bank loans.

Activity of the Banking System

Credit extended by the banking system to Ukraine's economy in the national currency (loan debt) during 1994 increased sixfold and on 1 January of this year amounted to 261 trillion karbovantsi, of which 141.6 trillion karbovantsi (54 percent) had been extended by the National Bank. Over the year, these credits increased 11-fold (excluding the refinancing of commercial banks).

In addition, commercial banks extended loans in foreign currency valued at more than 126 trillion karbovantsi to enterprises and organizations.

The share of long-term loans granted by commercial banks rose steadily last year. As of 1 January, they accounted for 14.7 percent of the total amount as against 5.6 percent on 1 July and 2.8 percent on 1 January 1994.

The weighted average interest rate on commercial bank loans rose at the end of last year and was 204.7 percent in December as against 201.4 percent in November (310 percent in January 1994).

The weighted average interest rate on deposits at commercial banks fell to 139.5 percent in December 1994 (it had been 146 percent in November and 224 percent in January).

Prepared by the Main Administration for Economic Reforms of the Cabinet of Ministers of Ukraine for the purpose of providing information on the basis of data supplied by the Ministry of the Economy, the Ministry of Statistics, the Ministry of Finance, and the National Bank of Ukraine.

*NPGU Leader on Independent Coal Union Activities

954F1898A Kiev MOST in Russian No 11, 20-26 Mar 95 p 10

[Interview of Vasiliy Lazorchik, chairman of the regional association of the Independent Miners Trade Union of Ukraine, NPGU, and deputy to the city soviet of Chervonograd, Lviv Oblast, by Vladimir Zinchenko; place and date not given]

[FBIS Translated Text]

[Zinchenko] Vasiliy Grigoryevich, they say that people are not born soldiers. What about trade union leaders?

[Lazorchik] As Lucretius the Wise once said, "Nothing comes from nothing." In my case, for example, activism began with the audacity not to circumvent problems and conflict situations and from a desire to live a public life. I became involved in trade union work at the tekhnikum for electrification and mechanization of agriculture. I did not stay away from public life when I began working either. I was a trade union group organizer, chairman of a shop committee, and deputy chairman of the enterprise trade union, but I realized that enthusiasm is not enough to become a real trade union figure and work at top efficiency; you also need specialized knowledge. I got that at the St. Petersburg Trade Union University.

[Zinchenko] Your move to the Independent Miners Trade Union of Ukraine [NPGU] was unexpected. The territorial committee of the trade union of coal industry employees was counting on you there and had high hopes for you. Vasiliy Grigoryevich, how do you assess your action at that time?

[Lazorchik] It is now a thing of the past, but it is a fair question and I want to give a frank answer. To be brief, I left an organization where not much trade union work was being done. I was not alone; the entire collective of the central enriching factory left. Here is what drove us to this step. Although after the miners strikes democrats were victorious in the trade union arena in our region and guys from the worker movement joined the trade union leadership at many mines, not all of these people resisted the temptation to return to the old ways. After thinking about it for a long time, I concluded that it was not their fault but just a misfortune. They remained what they had been—graduates of the "school of communism"—and therefore, whether they wanted to or not, the new people were living and working according to the old principles. That was one of the reasons.

A second reason was, as enriching factory workers recall, the amorphous state of the trade union terkom [territorial committee]. On many issues our terkom was not receiving any support from the trade union terkom. Then the question arose: why do we need a structure that does not help us in any way but only supervises and monitors? That is when the final decision emerged to build a trade union without employers, on the occupational principle, a structure that would meet the demands of the working people. So the whole factory switched to the NPGU.

[Zinchenko] It has been 18 months since you found yourself in the new role of leader of the regional association of the NPGU for Chervonograd. What can you tell us about the current activities of this association?

[Lazorchik] At first people did not pay much attention to us, but we stayed away from actions for show and put our efforts into just one thing: work. Our work became constructive. We started working for the miner and on his problems. Timid leaders were replaced by hard-working, energetic people like Vladimir Lonishin, Ivan Golota, and

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others, who were not afraid of tough jobs. As a result of our activity a social insurance branch was formed which works on social insurance matters regardless of what trade union the miner belongs to. At the same time we found a positive solution to the question of operating our newspaper CHERVONOGRADSKAYA PANORAMA, and the Credit Union was set up. It provides preferential loans to its trade union members and information about job placement abroad during leave. Through our efforts, a new wage payment system based on final results was developed and delivered to the Ukrzapadugol [West Ukrainian Coal] Association. The question of providing housing to trade union members is in the development stage. We have worked out a program and contract with the Svintyaz Joint-Stock Company, which is building housing, where it is possible to obtain an apartment in five years for a block of shares of stock. The NPGU regional association has purchased a block of these shares, and they will now be distributed first to people who need help in obtaining housing on a first come first served basis.

[Zinchenko] It is well-known that your position has won you new followers. After all, despite the constant tension surrounding the NPGU, as soon as you began working the number of primary organizations grew.

[Lazorchik] As they say, the truth will win. Indeed, the recent activities of the NPGU have stuck in the throat not just of our opponents but also of the powers that be. We have been criticized, slandered, and accused of things we haven't done. At those times I have reassured our folks by saying: "You win your reputation by actions, not excuses." We worked on the things that disturbed the miners and their families. This meant timely and fair wages and competent determination of disability categories after industrial injury to a miner. We were the ones, and no one else, who managed to get free travel on city and suburban buses instituted, who got a full audit of the financial and management activities of all the city's enterprises and organizations, who familiarized the Chervonograd community with the conclusions of the housing development commission, and who got a commission formed to allocate plots of land for individual production use. We wrote about all of this in our newspaper CHERVONOGRADSKAYA PANORAMA and the miners read it. It is hard to wrap them around your finger with fancy words, and after this we began to have more and more supporters. Just recently workers of the mine drilling and mining installation administrations, disillusioned with the official trade union, have come over to the NPGU. It is interesting that there is a growth trend; cells of the independent miners trade union have already been formed at almost all the mines of Chervonograd, which have more than 6,000 miners in the basic occupations.

[Zinchenko] Some of your enemies say that your trade union is not viable. Even in some of the newspapers of the official trade union there have been headlines such as, "The NPGU Is Ceasing To Exist." Your opinion on this would be especially interesting today, after your participation in the second congress of the NPGU.

[Lazorchik] You know, the miners have a phrase: a fresh flow. This is when the air is thin at the mining face, they are cutting a new ventilation shaft in a rush, laying the pipe through which the life-giving stream of air flows. It is precisely that kind of fresh flow, figuratively speaking, that the second congress of the NPGU, held in Kiev in February, was for our trade union. It was gratifying that the prevailing sentiment at the meeting was not confrontation but natural aspiration to form a strong working trade union, to give it a second wind. So I can disappoint our enemies; not only does the NPGU exist, it even has a chance to become the most influential trade union in our young state. Incidentally, the representatives of foreign delegations who attended the congress were persuaded of this also.

[Zinchenko] Until very recently a trade union was, as they say, a servant of the administration in carrying out its policy. What kind of relations do you have with the management of the Ukrzapadugol Production Association?

[Lazorchik] The NPGU regional association is not a piece of candy in the mouth of the association administration, but this does not mean that our relationship with them is one of constant opposition. When it is a question of normalizing the economy we are allies and support our "general," Stepan Pikula, and the other executives in their endeavor to improve the situation and strengthen labor and performance discipline. When we see that the managers are concerned for the future of the basin in fact and not just in words, we support them. We should note here that the "coal general" is in exactly the right place. Of the 20 coal associations, Ukrzapadugol is among the top five for economic indicators. It is noteworthy that S. Pikula is not afraid to take risks and always draws appropriate conclusions from mistakes.

We even try to resolve disputed issues diplomatically through negotiations and by signing mutually agreed upon documents. We will never compromise, though, if the miners suffer from it. In the end, our mutual relations are formalized through the agreement that is concluded.

[Zinchenko] Finally, what is your greatest concern today, Vasiliy Grigoryevich, as head of such a major organization as the regional association of the NPGU?

[Lazorchik] It is the poor reputation of some trade union leaders and the passivity of rank and file members in defending their own interests. Of course, we are also concerned about the crisis in the coal industry and the negative situation with resolving socioeconomic issues. Also there is the fact that our miners are traveling to Poland and Russia to earn money. Our coal basin is losing its priceless treasure, its best workers. It breaks our hearts, honestly.

*Industrialists Support Financial-Industrial Group Edict

954F1928A Kiev PRAVDA UKRAINY in Russian 23 Mar 95 p 2

[Article by industrialists Vladimir Boyko, General director of the leasing enterprise "Marnupolskiy Metallurgical Combine imeni Ilyich"; Valentin Ilyushenko, general director of the PO "Donetskugol," and Gennadiy Vlasov:

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general director Avdeyevskiy KKhZ: "We Vote for the President's Edict; On the Fate of Financial-Industrial Groups"]

[FBIS Translated Text] The dead-end situation in the economy of Ukraine urgently demands extraordinary measures from leaders of large industrial enterprises of basic sectors of industry, where huge property and manpower resources are concentrated. It is specifically for this reason that, for over a year and a half, these enterprises, which have been placed in survival conditions, have sought ways to unite their efforts in order to withstand the disintegration of the economy and not allow the complete disintegration of Ukraine's industry, which had taken decades to create.

We are speaking of the enterprises of a single technological chain: "coal - coke - ore - metal," and "coal - power," each of which is managed by different ministries, has different capacities for entering the world market, and functions in different economic regimens. The interests of the natural partners appear to be disjointed. From time to time, one wins out, and then the other. It is most difficult for the one who is at the beginning of the chain—the coal and ore enterprises. But ultimately, all stand to lose. The entire industry of the country is the loser.

Figuratively speaking, being in the same technological boat, we are using different economic oars, and our task consists of making these ores uniform. Only then will the oarsmen steer the boat in a single direction—the direction of mutual benefit on the basis of production of that which the domestic and foreign markets really need.

In our search for that which might economically unite our interests, we have come to the need for establishing financial-industrial groups of the contractual type. The absence of experience and of an appropriate legal base have motivated us to move cautiously along the path of coordinating our mutually interrelated interests. Every step was difficult, and was calculated many times over. There were stops along this path, associated with changes in external conditions which, seemingly, offered us a chance to survive individually. But soon everything returned to the usual—to an understanding of the fact that we would not survive without each other. The loss of one partner would sooner or later lead to losses of another, and successes, even minor ones, gave rise to the chance of realizing the common hope of correcting the state of affairs for the better. Ultimately, educated by the experience of adapting to market conditions of economic management, we concluded an agreement on joint activity, orienting economic relations toward the end result—production and sale of metal. Monetary accounting in this case is performed also from one source, and is directly tied with the profits at which the metal is sold. The positive results and mutual responsibility were felt immediately.

So as not to make unsubstantiated statements, we will note some of these.

For example, the problem of non-payments. The creation of FIGs [financial-industrial groups] greatly facilitates the resolution of this problem. First of all, because the scope of mutual payments is reduced when products circulate within the FIG at production cost. Secondly, since the payments are to be made from the real final source—from income received upon sale of the metal. Thirdly, because the production of metal from raw material to finished result, the realization of the initial, intermediate and end products, the real monetary-finance relations and investment capacities associated with this, including investments into the social sphere, will all be joined together. This will not only unite the interests and increase mutual interest, but will also increase the discipline of deliveries and facilitate the circulation of products and money. Fourthly, the sale of the initial and intermediate products within the FIG at production cost and the acceleration of financial-economic turnover will reduce the cost of the end product and make it more competitive on the domestic and, more importantly, on the foreign market. Fifthly, the above-mentioned domestic economic relations within the framework of the FIG closely tie in the movement of goods and money, and thus act as a serious anti-inflationary factor. And finally, sixthly, in the case of establishing a FIG on the basis of a single technological chain of "coal - coke - ore - metal," the state has the opportunity to retain export-capable metallurgical enterprises—one of the most important sources for influx of currency into Ukraine today. Their preservation will provide work for all the contiguous industries associated with them. And this means hundreds of thousands of jobs.

It is specifically for this reason that the president's edict and decree on FIGs were ever so timely. They make it possible to develop the agreements which have been reached and to resolve within the unified organizational-economic structure of the FIG an entire series of most complex problems, which could not be solved separately.

Of course, any good thing can be taken to the point of absurdity, if together with the absolutely correct recommendations we insist also upon the errors which have been allowed. Therefore, the objections by opponents of the presidential edict deserve attention, especially since they also contain some justified warnings. This relates to the possibilities of establishing an FIG with a head enterprise—an SP [joint venture] which would be exempted for a period of 5 years from payment of taxes or registered outside the limits of Ukraine, or by enterprises of the VPK [military-industrial complex]. The capacities for independently determining depreciation policy and independently indexing their fixed capital which are being granted to the FIGs are also not uncontroversial. It is also necessary to develop the question of interactions of enterprises included in the FIG with the appropriate ministries under whose jurisdiction they fall. There are also other problems which are not resolved and not illuminated by the decree. We are not proponents of wholesale creation of FIGs, without the proper basis or economic computations.

Nevertheless, we must begin the undertaking. And then life itself will tell us what we need to do and how, what we need to add or correct. All the nuances, all the details of our economic giant cannot be foreseen in any offices. The real mechanisms of interaction of economic interests in the form of FIGs or in some other forms—not dreamed up and

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not imposed, but born of the demands of practical application—may become clear only in a form which many have yet to understand. Therefore, we are speaking out in favor of the realization of the Edict and Decree on the FIG, and against its being "watered down." The Ministry of Economics, the anti-monopoly committee and the sectorial ministries have been defined as the "quality controllers" of the FIG. So that the expediency and process of their formation will take place not elementally, not at someone's whim, but under state control, and this is fully justified under the formulated conditions.

We would like to conclude on this upbeat note. But, alas, no sooner had the ink dried on the president's Edict and Decree on Financial-Industrial Groups, than it was subjected to ostracism in the Supreme Soviet of Ukraine, which found nothing better to do than to impose a "veto" on it. Once again, the search for compromise is being replaced with hand-to-hand combat in the interests of personal political ambitions. Although even last year, the Supreme Soviet approved the basic principles and directions of the president's program of reform.

It is time to put everything in its place. Sociological analysis and serious economic lay-out will confirm the correctness of the proponents of immediate recognition of FIGs.

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Belarus

*Agriculture Minister on Liberalization of Procurement Prices

954F1675A Moscow SELSKAYA ZHIZN in Russian 4 Mar 95 p 3

[Interview with V. Leonov, Minster of Agriculture and Food of the Republic of Belarus, by A. Gulyayev: "Prices Liberalized."

[FBIS Translated Text] **Procurement prices have gone up in Belarus. This means that retail prices for food, which just rose by a factor of 1.6 in the republic, will jump again. SELSKAYA ZHIZN correspondent Anatoliy Gulyayev talks with Vasiliy Leonov, minister of agriculture and food of the Republic of Belarus, about the reasons for that.**

[Gulyayev] First, a few words about the results produced last year. After all, they also strongly influenced the adoption of such a decision.

[Leonov] Definitely. Especially since last year was difficult for a number of reasons. First of all, for six months there was a severe drought. Meteorologists state that it was the worst one in 100 years. Some 20—30 percent of the harvest was lost. Secondly, the disparity of prices for agricultural and industrial products deepened. The working capital of kolkhozes and sovkhozes is totally exhausted. The wage of a kolkhoz member is less than half of that earned by a city dweller.

Confusion lasted a long time. Prices, as you know, went up, but were also lowered by arbitrary decisions. But we finally came to the second variant just now.

At first, of course, another drop in the exchange rate of the "hare" is inevitable. But something else is also evident: with the former procurement prices we will not be able to conduct the sowing. Let us say the following: about 10 percent of the most capable, even gifted leaders will be able to manage in this situation, to stock up on fertilizers and fuel.

[Gulyayev] Are you saying that only 10 percent of farm managers in the republic are capable of working effectively today?

[Leonov] Of course not. I am speaking only of the gifted ones, who will be saved not only by agrarian production, but by well-stocked storerooms and commercial dealings. The absolute majority of them, however, do not have the means to pay for sowing. Even if we liberalize prices now, there will still be a shortfall amounting to three trillion "hares."

At present there is an insistent search for additional sources of financing. Various proposals are being studied, including the following: creation of a nonbudgetary fund with deductions of 5 percent to be paid into it by all enterprises and organizations. Making such a contribution in favor of the peasant. But even that will produce only 1.5 trillion.

We do not want to turn on the printing press. But it is impossible to sow without using fertilizers because otherwise it would be necessary to purchase around three million tonnes of grain.

It would, of course, be possible to slaughter the herds of cattle. The former government used this method to generate 600 billion rubles [R]. The livestock funds were reduced and eaten. Well, there are still quite a few cows. In general we still posses a vast potential accumulated in former times. It will probably be enough for two years.

But then the 18th century will begin.

[Gulyayev] How is it possible to avoid that? Can you see a way to resolve the problem?

[Leonov] Of course. We worked out a concept for the development of agriculture which determines both the strategic and the tactical tasks for the immediate future. It is based on a simple thought: the situation that exists in the agricultural complex of the republic calls for government assistance and state regulation, on the one hand, and attraction of entrepreneurial capital, on the other hand.

Government regulation is attained first of all by the creation of a financial-credit system on the basis of a state-cooperative corporation with management, and that means, a controlling block of shares of the government. The attraction of working capital in the agricultural complex must be carried out through issuance of securities and the use of mortgages. It is undoubtedly necessary to create a civilized system of price formation, in which the producer receives the main profit. Stage-by-stage privatization of subjects of the agricultural complex in a very calm variant with broad development of leasing.

Right now, however, the first step consists of the liberalization of procurement prices.

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Armenia

*War Seen Possible to Break Impasse in Karabakh

954K0536A Yerevan LRAGIR in Armenian 16 Feb 95 p 5

[Article by Hovsep Khurshudyan: "Additional Territorial Losses and Recognition of NKR May Force Azerbaijan to Sit at the Negotiating Table"]

[FBIS Translated Text] The talks held in OSCE circles increasingly look like an impasse. Perhaps it is possible to negotiate indefinitely, and for the moment that does not conflict with the interests of Armenia and the Nagorno-Karabakh Republic [NKR] (if we ignore the blockade and focus on plans to annex the occupied territories). However, this is true only if there are disengagement forces deployed between the warring sides and a ceasefire that may last for many years is guaranteed. In the absence of such guarantees, the situation requires new developments which may change the status quo in favor of one or the other side and the force the talks into a new phase and a more constructive course.

Given this situation, it is possible to identify a number of likely developments, each of which requires appropriate preparations in order to avoid any losses.

Regardless of what may happen, gradually making the NKR independent (diplomatically, militarily and socio-economically) is one of the most important prerequisites of attaining success in the negotiations. It is not unnecessary to be hasty on this issue because one cannot rule out any developments whereby the "international community" pressures Armenia to impose perfunctory or even real sanctions against the NKR (indeed sanctions that may be more extensive than those imposed by Yugoslavia against the Bosnian Serbs). This can happen if the NKR army advances further, say, toward Navtalan-Yevlakh or Gyanja. On the other hand, such an advance may be the only way out of the current impasse which has been created at the OSCE-sponsored talks. Azerbaijan has steadily hardened its position to the point where it no longer recognizes the NKR as a full-fledged party in the talks and has demanded that if they do that then the same status must also be given to the Azeri community of Karabakh. In this situation the only means Armenia and the NKR have at their disposal to put pressure on Azerbaijan is to occupy additional territories. However, until sanctions are imposed against the NKR, Armenia must recognize the independence of the NKR and establish diplomatic relations with it to avoid inconsistencies in the logic of diplomacy. Thus, without ruling out such a development (indeed, according to information reaching us, military preparations and accumulations of manpower and military materiel are already observed along the entire Karabakh-Azerbaijan front), it is necessary at this time to take appropriate coordinated measures to ensure the autonomous survival of the NKR and the autonomous realization of military operations. The most important of these measures are:

1. Steps must be taken to ensure fuel and energy independence for the NKR. In particular military equipment and fuel must be stockpiled. To that end large storage areas must be built now to enable the NKR to undertake long-term operations independently.
2. Financial and material investments by Armenia in the improvement of the NKR's internal communication system are essential before the resumption of hostilities. High priority must be given to the construction of roads, establishment of telephone and radio links, expansion of the NKR truck fleet, and strengthening the cargo processing capabilities of Stepanakert airport and its ability to handle large cargo and military aircraft. At the same time expenditures on nonessential projects, such as irrigation pipes and home building, that are financed by the Armenian republic, the NKR and public organizations (such as the Armenia Fund), must be reduced. Such projects must be realized by private enterprise and by low-cost and long-term loans.
3. Steps must be taken to stockpile food.
4. Military training centers already operating in the NKR can permit NKR to break its reliance on volunteers from the Armenian officer corps.
5. Work must be stepped up to expand the diplomatic corps of the NKR and to finance increased diplomatic activity in critical national capitals overseas.

After all, if the besieged Bosnian Serbs were able to force the "international community" to come to terms with the idea that the Muslims and the Croats should take only one-third of Bosnia, why should not the NKR be able to force Azerbaijan to come to terms with the idea that it must recognize the NKR's independence if it wishes to recover at least some of its territories and if it does not wish to lose additional territories?

The other possibility is that Azerbaijan may break the ceasefire and resume military operations against the NKR. This possibility is more likely in view of the neutralization of Russian diplomacy in the region as a result of Moscow's preoccupation with Chechnya. Let us recall that the Azeri position hardened in the OSCE talks as soon as the Chechnya war began. That conflict also lay at the root of Azerbaijan's uncompromising stance at the CIS summit in Almaty with regard to the creation of joint peacekeeping forces and the joint defense of the external borders of the CIS.

If this possibility becomes reality then one should not rule out the recognition of the NKR's independence by Yerevan and then by Moscow, especially if the Azeri army is allowed to occupy a few regions temporarily. It is remarkable that at the conclusion of the Almaty summit, Prime Minister V. Chernomyrdyn of the Russian Federation declared that there is no parallel between the conflict in Chechnya and the one in Karabakh, because the former is Russia's internal affair while the latter is not Azerbaijan's internal affair and that it must be resolved through talks between Armenia and Azerbaijan. After such a recognition there would no political hurdles left before the NKR army

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to break Azerbaijan's obstinacy. On the other hand, if it breaks the ceasefire Azerbaijan can no longer rely on the West's political support.

In both cases, Azerbaijan goes into the game with a greatly reduced stature in the eyes of both the West and Russia. The West's displeasure stems from Azerbaijan's inconsistent foreign policy, its decision to include Iran in the oil consortium (on this the United States has taken the clear position that if Iran is included in the consortium, American oil companies will leave it), as well as its bid to play the Islamic unity card and to invite Afghan mujahideen, thus upsetting the West-Russia axis of the game and introducing into it the elements of a North-South conflict. This last fact made Azerbaijan's external political relations more emotional. The opening of an Israeli embassy in Baku and the possible expansion of relations between Azerbaijan and Israel prompted mujahideen leader Hekmatyar to recall his mujahideen fighting the NKR on behalf of Azerbaijan. Azerbaijan continues to make one mistake after another in its policy with regard to Russia as well. It helped Chechnya by supplying it with military materiel, equipment and manpower (Moscow has already produced irrefutable evidence about these supplies and has displayed them before the world). Thus Baku demonstrated once again that it is unwilling to enter into a friendly and cooperative relationship with Russia. With that Baku moved further away from Russia without, however, moving a single step closer to the West, mainly the United States, but gaining the support of only Turkey.

*Azeri Deputy Minister on Karabakh Peace Prospects

954K0536B Yerevan AZG in Armenian 15 Feb 95 p 3

[Interview with Tofik Zulfugarov, deputy foreign minister of Azerbaijan, by AZG correspondent Lusik Ghukasyan; in Moscow on 9 February]

[FBIS Translated Text] As is known, representatives of Armenia, the Nagorno-Karabakh Republic [NKR] and Azerbaijan met for 5 days in Moscow behind closed doors to negotiate a peaceful settlement of the Karabakh conflict. Initially it was agreed to keep the course of the talks secret, and there have been isolated public statements which do not really say anything. The correspondent of AZG had an interview with Tofik Zulfugarov, deputy foreign minister of Azerbaijan and the representative of the Azeri side at the talks, immediately after the conclusion of the talks. We believe that this interview can, at least partially, shed light on the course of the negotiations and spell out the position of the Azeri side at this stage with regard to the peaceful settlement of the problem.

[AZG] Mr Zulfugarov, what is your interpretation of the talks that were just completed? Can they be described as a step forward or as the drop that bores through rock over time?

[Zulfugarov] We agreed not to comment on the talks, but I can comment on their framework. If we talk about the text of the agreement on which work was done, then very little was achieved. Even so, the discussions that were held were not without consequence, and gave something to everyone.

[AZG] But all sides persisted in their viewpoint.

[Zulfugarov] It is impossible to maintain the same viewpoint indefinitely. What I say has an impact on the other side, and what the other side says has an impact on me. We can pretend that we maintain our viewpoint, but in reality that is not true.

[AZG] In your opinion what is the essence of the most important disagreement?

[Zulfugarov] An attempt is being made to present only the Armenians of Nagorno-Karabakh as a side to the conflict. We cannot agree to that. We believe that the Azeri community of Nagorno-Karabakh must also be taken into account and have its place in the talks. My view of the conflict is that there are two phases in its settlement. It is assumed that all warring sides in the conflict are participants in the ceasefire. However, not only the warring sides but all interested parties must participate in the political phase.

[AZG] In a recent interview [former Azeri president] Ayaz Mutalibov acknowledged that Nagorno-Karabakh is a de facto independent state. Given the present realities, what is your view and perception of Nagorno-Karabakh?

[Zulfugarov] My view of the situation is that if we analyze the conflict we are engaged in we find several levels of confrontation. The expulsion of the Azeri community from Armenia has attracted the attention of the international community. Indeed this is the root and core of the conflict. Thus we are dealing with a confrontation between two states. There is a second level of confrontation between the government of Azerbaijan and the Armenian population of Nagorno-Karabakh. The third level of confrontation is between the Armenian population and the Azeri minority of Nagorno-Karabakh.

Yet another confrontation has, unfortunately, been pushed into oblivion. That confrontation is the one between the Armenian government and ethnic Azeris who are former citizens of Armenia. This confrontation exists from a standpoint of human rights. As for the present situation, from a standpoint of international law, the status of parts of Azeri territory does not depend on who controls those parts militarily. It is falsely assumed that territories that are under the military control of one side are nearly independent. I understand independence in a different way: Independence is more related to concepts like standard of living and, if you like, the level of happiness of people who live on those territories. Can we say that people who fire weapons have become happier? I think that applying these standards makes more sense.

[AZG] Based on that reasoning we, together with you, deprive not only Karabakh but also Azerbaijan and Armenia from independence.

[Zulfugarov] Yes. However, certain stereotypical ways of viewing the situation have emerged. I consider this conflict as a great misfortune which requires a peaceful settlement very soon. On that I would like to note the following: Three

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categories of people can be identified in Nagorno-Karabakh and other territories controlled by Armenian forces: 1) The upper class which is in power and which receives political dividends from all this. This class is pursuing its own political, or I would say, selfish interests and thus cannot be impartial and wish peace at any time. 2) People who are close to this ruling class and who implement its policies. These people also receive something from the "cake." 3) Ordinary people who are in effect suffering all the deprivations. I think that peace with Azerbaijan will be possible through this last category of people.

I think that the conflict must be settled on the basis of fairness. Any settlement plan must not make any one of the sides to appear the winner and the other side the loser. Otherwise one of the sides will always contemplate revenge in the future. Moreover, as the historical experience shows, the apparent winner is not always the real winner. Often the loser reappraises its situation and achieves a higher level of development than the winner. Based on that rationalism, I think that all sides must agree that the accord they sign is fair.

[AZG] Everyone may have his own idea of what is fair. What is yours?

[Zulfugarov] This has been clearly stated in the text of the agreement. We are proposing the following: The political solution must not be built on the results of either military operations or acts of ethnic cleansing. The ethnic situation that existed at the time of the eruption of hostilities in the conflict zone must be restored. That would be fair. Unfortunately this principle has not been accepted.

[AZG] What do you mean by the restoration of the ethnic situation? Do you mean the return of Azeris to Karabakh?

[Zulfugarov] What I say applies not only to Azeris but also Armenians. We must eliminate the consequences of military operations. Only then can we begin to discuss the status of Nagorno-Karabakh. Discussing the status of Nagorno-Karabakh now means starting from the situation that exists now. The restoration of the ethnic picture would enable us to take into account the interests of all peoples represented in the region. At present only the interests of the Armenian segment of the population are being brought up.

[AZG] Mutalibov, the first president of Azerbaijan, also said in the same interview I mentioned that your country is on the brink of a civil war. How would you describe the internal political situation of Azerbaijan?

[Zulfugarov] I consider the present situation as sufficiently stable. I am not an expert on internal politics but, based on my experience in my field of specialty, I can say that the government system has become much more unambiguous than what it was before. Apparently similar processes are under way in other spheres. If that is true I believe that it is a sign of the stabilization of the government. Everyone is tired of all the upheavals. In our region nothing is more essential than political stability, because that is the prerequisite to achieve peace. As you can see, I turned to the theme of the conflict again because I am certain that political stability and the establishment of peace are interrelated processes.

*Labor Minister Views Social System Problems

954F1907A Yerevan RESPUBLIKA ARMENIYA in Russian 23 Mar 95 p 1

[Report by Ashot Aramyan under the rubric "Briefing": "A Need Is Not a Hobby and Not Valor...: First 'Estimates' of the Republic of Armenia Social Security System Market"]

[FBIS Translated Text] The social system of our republic so far represents the weakest link in the general infrastructure slowly moving toward a market. I would probably not be wrong in pointing out that we will not have a full-fledged market-oriented social protection system until the end of the century, since people's nostalgic recollections are still strong in this respect; in addition, we have to take into account the specificity and mentality of the nation, which differs substantially from the mentality and traditions of, for instance, the Danes or "all other Swedes." An objective factor in this sector's "lag" is that it should, so to say, reflect and utilize the fruits of structural restructuring of all other spheres. Nevertheless, life cannot be stopped, and the need to soften to the extent possible the consequences of the reforms for weak population strata is a task for today. These questions were the subject of a press conference given by Ashot Yesayan, minister of labor and social security of the Republic of Armenia, on 21 March.

The minister enumerated the principles on which the social sphere should be reformed: fairness; strict selectiveness and targeting; and others. Let us note at the outset that in Mr. Yesayan's opinion, in the current difficult conditions the government has allocated the maximum possible for social needs this year—1 billion drams. Anyway, last year, from August to September, the republic began to implement the Paros system, which involves families filling out so-called social passports. By the way, from now on the decision has been made to move from the individual to the family principle in distributing social aid. As is known, until now aid has been targeted to the most needy stratum—single pensioners, families with many children, orphans, and others—and aid was provided to all members of this category, although it is clear that the micro-environment, the living conditions of, for instance, single pensioners are completely different; that is, their income, place of residence (a house in the center of Yerevan or a rented apartment in a border zone village), and so on were not taken into account.

Anyway, as a result of filling out social passports in schools and housing management offices, it turned out that of 850,000 families, 625,000 declared themselves as needy. The minister was skeptical about this figure, saying that for many people filling out the social passport was a sort of "hobby," a desire to find out where along the scale of need his family falls. And what is "poverty" anyway? Probably the inability to independently ensure the satisfaction of minimum needs. It is obvious that there are not as many such families as people claimed through the Paros system.

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The minister categorically stated that he does not intend "to turn the entire country into a social security agency" and does not set for himself the task of "searching and identifying the needy and indigent." Next year the Ministry of Labor will use in its work declarations of citizens' income, which will be required from the latter by the tax inspectorate. Failure to declare income will be prosecuted by the tax services, and the social punishment, so to say, will be their removal from any kind of humanitarian aid rolls for one year. "I think we will soon achieve 90-95 percent precision in identifying the truly needy," said A. Yesayan.

The minister also briefly described three forthcoming measures envisaged to be implemented with respect to people's social protection. First, according to the results of the Paros system of evaluation of family eligibility for assistance, families living in Yerevan will after 22 March receive coupons for kerosene (20 liters), but only if they meet the following three requirements: They did not receive kerosene coupons under the "Warm Winter 94-95" program; they did register and fill out a social passport (during the period August to September 1994 in schools or ZhEU); they have been classified as most needy under the current criteria of needs evaluation. The lists of those who meet these criteria will be posted in ZhEU's and bread stores at the place of residence after 20 March. After this, all one needs to do is stop by the ZhEU or the building committee, show the necessary documents, and receive a coupon. A. Yesayan said that approximately 50,000 Yerevan families will receive 20 liters of kerosene each. Let us add that this undertaking was made possible through USAID financial aid.

Regarding two other programs, RESPUBLIKA ARMENIYA will publish the announcements. Let us only add monthly allowances in the equivalent of $4 for home guard members and their underage children (until the children attain their majority), which fall under the announced categories, and for citizens that have been victims of genocide—permanent allowances and other aid will be given.

*Position, Problems of Ethnic Minorities Reviewed

954F1812A Moscow SEGODNYA in Russian 15 Mar 95 p 4

[Article by Gamlet Matevosyan (Yerevan): "Ethnic Minorities in Armenia; Problems in Keeping the Non-Native Population in the Republic"]

[FBIS Translated Text] Armenia was always considered to be the most mono-ethnic of the former union republics—representatives of the titular nationality constituted almost 90 percent of the population. Other nationalities representing significant percentages of the population in Armenia in the mid-1980s were the Azerbaijanis—over 6 percent, and the Russians—around 3 percent. The numbers of other ethnic minorities—Ukrainians, Greeks, Assyrians, Kurds, Yazidis, and Jews—were inconsequential.

Today more than 95 percent of the population of the sovereign state is Armenian. This change in the ethnic composition has been accompanied by changes in the role and place of ethnic minorities in the society.

The assimilation of people of other nationalities in Armenia was always a natural process. There were never any ethnic conflicts or discrimination in Armenia. This may have been due to the broad network of Russian-language schools, which ascribed equal rights to Greeks, Ukrainians, Russians, and Armenians. The closure of these schools throughout the republic began the process of the division of the population and the unification of the separate groups on ethnic grounds. It is not surprising that members of ethnic minorities who leave Armenia list the closure of the Russian-language schools as one of their main reasons.

Azerbaijanis, Kurds, Yazidis, Greeks, Molokans (part Russian and part Mordvinian), and Assyrians lived in separate enclaves in Armenia for a long time. Most of the Greeks lived in the northern part of the republic—near the Alaverdy copper and molybdenum production sites that had attracted their immigrant forebears decades earlier. The Kurds and Yazidis, who were mainly livestock breeders, lived in the foothills of Mount Aragats. The distinctive appearance of Russian cottages and churches was a prominent part of the landscape in Stepanavanskiy and Kalininskiy (now Tashirskiy) rayons.

Now the Russian settlements are almost deserted. The Alaverdy Combine was closed through the efforts of the "Greens," and the Greek workers had to go elsewhere in search of a living. Even the Yazidis are moving to Russia, where it is easier to support a family. As far as the Azerbaijanis are concerned, there are none left in the territory (except for the isolated few who intermarried), and their villages have been renamed and turned over to the Armenian refugees from Azerbaijan. Under these conditions, members of ethnic minorities in Armenia have begun to unite in communities for the preservation of their culture and traditions and for the protection of their national identity, which would never have even entered their minds just five years ago.

The Ukrainian "Chervona Kalina" cultural center has instituted Ukrainian language and history classes at the Shevchenko School in Yerevan for children and for adults. There were 8,000 Ukrainians living in Armenia in 1989, but now the number is unknown. Ukrainian churchgoers attend Armenian and Russian Orthodox churches. The same is true of the Greeks, who now number around 3,000 in Armenia. The Greek community in Armenia has had more contact with Greece and Cyprus in recent years. Spokesmen for the Greek community recently announced their intention to finance the construction of a Greek cultural center and Greek Orthodox church in Yerevan.

The Kurds and Yazidis are frequently confused even in Armenia, although the members of the two nationalities zealously guard their separate identities. The first Kurds arrived in eastern Armenia at the beginning of the 19th century. The present Kurdish population of 60,000 (according to 1985 data) has schools where classes are

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taught in Kurdish and two newspapers—RYA TAZA in Kurdish and BOTAN in Armenian. It also has daily radio broadcasts. The Council of the Kurdish Intelligentsia, the Kurdish Social Union, and the Kurdistan Committee are active in Yerevan. There are around 50,000 Yazidis in the republic (according to 1985 data). They also have newspapers and daily radio programs, but the worldwide dispersion of this nationality and the absence of a single written language complicate the Yazidis' contacts with the outside world. The Kurds and Yazidis traditionally added the Armenian "yan" to the end of their own names, and many received an Armenian education, although they remained loyal to the traditions of their own people—and probably to a greater degree than the other ethnic minorities. The women of these nationalities always stood out from the rest of the crowd in Yerevan because of the characteristically vibrant colors and exotic appearance of their clothing.

The first Russian settlers arrived in Armenia in the end of the 18th century. The subsequent growth of this community was due to the friendly and gracious welcome the Russians received from the local population—largely as a result of their common faith. In the Soviet era the rapid development of industry attracted specialists from Russia—fitters and power engineers, who came to Armenia on labor contracts and stayed there to raise their families. The same was true of the servicemen and border guards who were discharged into the reserves there. There was a strong bilingual tradition in Armenia: There was no shortage of Armenians who were fluent in Russian, and people with typically Russian features who spoke fluent Armenian were not rare either.

According to 1979 census data, there were 89,000 Russians living in Armenia. Now there are around 20,000 Russians in the republic. There are three Russian societies: "Rossiya"—the largest, "ODA," and "Garmoniya," which is the international Russian cultural center in Armenia. A foundation has been set up for gifted children. The Russian community maintains close ties with Russia, especially with Krasnodar and Stavropol krays, and can rely on the support of the Russian Federation on the state level. There are Russian Orthodox cathedrals in Yerevan, Vanadzor, and the rural community of Dimitrov in Artashatskiy Rayon. There are several Russian-language newspapers, a Russian dramatic theater, and Russian radio programs in Yerevan. All of this, however, is not due solely to the efforts of the abovementioned societies. Most of the credit has to be given to the Russian-speaking Armenians, who have traditionally felt a strong bond with the Russian culture and are trying to restore the historical connection between the two nationalities that was broken by recent political events. "The Russian population is not being harassed, and there are no recorded incidents of job or housing discrimination against Russians," Chairman Galina Chernousova of the "Rossiya" society declared.

There is no question, however, that the political excesses that once led to the closure of all Russian schools in Armenia contributed to the exodus of the Russian-speaking population from the republic, although no one doubts that the socioeconomic difficulties in the republic are the main reason. It is true that some efforts have been made in the last few years to redress these excesses: Nine Russian schools have already been opened in Armenia. There has been talk about a Russian classical academy, and a Russian university will be opened in the near future.

It must be said that the members of ethnic minorities in Armenia share the problems and concerns of the rest of the Armenian public. This applies to political, economic, and cultural affairs. For this reason, the suggestion that ethnic minorities are being driven out of Armenia is ludicrous.

*Official Migration Statistics Disputed

954F1917A Yerevan GOLOS ARMENII in Russian 23 Mar 95 p 1

[Article by V. S.: "1,000,000 or 10,000?"]

[FBIS Translated Text] Ordinarily people say that the Armenian State Administration for Statistics has received some good press. Practically all of the newspapers carried the same headline: "In 1994 12,300 individuals left Armenia." In other words the flow of migration, which is written about and discussed so much, is not too frightening. That figure is not commented on; therefore it is difficult to judge which method was used to obtain it. One must confess that taken from any viewpoint it appears more than doubtful. Even highly placed officials from among the ministers do not conceal the fact that over the past several years at least 300,000 people have emigrated from Armenia. According to the logic of the State Administration for Statistics, however, 50,000-60,000 people—maybe more but no fewer—have left to go abroad during that period.

Initially the number of migrants from Armenia was designated by one of the well-known sociologists, who observed that according to preliminary data, 600,000 people went abroad. That figure appeared two years ago. One recalls that Agasi Arshakyan, in analyzing data on the electoral districts (between 1990 and 1994), on the pages of GOLOS ARMENII, added another 200,000. His opponent, Grigor Avakyan, charged that the computation method used by Arshakyan was unprofessional and asserted that there were very few migrants. The report on human rights in Armenia in 1994 by the U.S. State Department, however, indicates: "The government does not block emigration in any way. Actually, over the past six years more than a third of the population of Armenia left the country either temporarily or permanently."

You must agree that a third of the population of the republic is not 1 million but somewhat more than that. It appears to me that the Americans are not wrong in their calculations. Subsidizing local sociological research centers, they could readily have obtained the most accurate figure on the number of migrants.

I shall cite the latest data on that topic. Last Wednesday in parliament, Prime Minister G. Bagratyan noted that of the more than 3.4 million individuals included in the plan, over 3 million have already received their privatization certificates. It is very noteworthy that just two months ago it was planned to distribute 3.7 million vouchers. It must also be assumed that 600,000 individuals either have no

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respect for vouchers at all or did not receive them because they were absent. It would seem that the second argument is more probable.

Thus we have some arithmetic acrobatics. It will continue until a population census is conducted in the republic. By the way, if the government does not react to emigration from the country, as noted by the Americans, it will never create a problem for itself. On the other hand, conducting a census in an election year would be rather foolish for the authorities. A population census in Armenia will take place, but it will not be before 1997; that is, after the presidential elections.

Georgia

*Chairman of Abkhaz Supreme Soviet in Tbilisi on Crisis Settlement

954F1901A Moscow SEGODNYA in Russian
22 Mar 95 p 4

[Article by Vladimir Dunayev under the heading "Conflict": "The Key to Solving the Abkhazian Problem Is in Moscow": "Tbilisi Does Not Want More Bloodshed, But It Is Keeping the Military Option Open"]

[FBIS Translated Text] *Tamaz Vladimirovich Nadareyshvili is chairman of the Supreme Soviet of the Autonomous Republic of Abkhazia in Tbilisi and has been vice-premier of Georgia since November 1993. He was awarded the Order of Vakhtang Gorgasali for the defense of Sukhumi in 1993. The 65-seat Abkhazian Parliament elected in 1994 split into two parts on the very first day of its term, with 33 deputies supporting Vladislav Ardzinba, and 32 supporting Tamaz Nadareyshvili, his chief rival. The Supreme Soviet essentially split along ethnic lines. The Abkhazians rallied around Ardzinba, and the Georgians around Nadareyshvili. In the latter's opinion, the parliamentary elections were held under a discriminatory law according to which 28 seats were set aside for Abkhazians and only 26 for Georgians. Yet more than half of Abkhazia's population of 550,000 was Georgian. After the beginning of the Georgia-Abkhazia war the 32 Georgian deputies in the Abkhazian Parliament moved to Tbilisi and there formed the Supreme Soviet of the Autonomous Republic of Abkhazia. Officially lacking the legally-required majority (with only 32 out of 65 deputies), the Abkhazian parliament in Tbilisi has not approved a single document. For that reason Mr. Nadareyshvili considers all decisions by the other half of the Abkhazian Parliament invalid, and has called for reunification of the parliament as the first step toward reconciliation.*

A solution to the Abkhazian problem is possible only with active Russian participation. This was stated by Tamaz Nadareyshvili, chairman of the Supreme Soviet of the Autonomous Republic of Abkhazia, in an interview with a SEGODNYA correspondent. For that reason the leader of the Abkhazian parliament in Tbilisi was opposed on principle to participating in the Georgian-Abkhazian talks held in Europe.

The leader of the Abkhazian parliament in Tbilisi laid out his plan for untangling the Abkhazian knot. In the first stage of that plan, all refugees—Georgians, Abkhazians, Russians, Armenians and Greeks—who were forced to leave the republic by military operations and genocide would return to Abkhazia. Next it would be necessary to consider Abkhazia's political status. Tbilisi favors creating a unified federative state of Georgia with a common defense, financial system, foreign policy, borders and systems of communication and transportation. Everything else would be transferred to the jurisdiction of the components of the future federation, whether that be Adzharia or Abkhazia. The third step toward normalization would be free elections to the Abkhazian parliament. "We support peace in this country and peaceful coexistence between Abkhazians, Georgians and other peoples," stated Mr. Nadareyshvili, "but all those who have committed crimes against humanity, on both sides, must be punished."

In the past Tbilisi has pinned much of its hope on participation by Russian peacekeepers in the Georgian peace process. However, according to Mr. Nadareyshvili actions by the leaders of the peacekeeping mission make one wonder just how dedicated they are to resolving the Abkhazian issue. So far the peacekeepers have done nothing except establish an artificial border between Abkhazia and Georgia. Furthermore, with the obvious complicity of commanders and General Yakushev personally, in the period of 9-14 March the Abkhazian police launched a major reprisal operation in Abkhazia's Galskiy Rayon, which is under the peacekeepers' control. "We have evidence that people were beaten with steel reinforcement bars, decapitated and shot," stated Mr. Nadareyshvili. "The victims of this ethnic cleansing were civilians of Georgian nationality, who form the overwhelming majority of the population in that region, not Georgian saboteurs, as Ardzinba claims." Reports of civilians being abused by the Abkhazian police were confirmed yesterday by the U.N. high commissioner for refugees.

Georgia's vice-premier feels that in the near future the peacekeeping forces should be redeployed from the Inguri River to the Gali River and take up positions between Galskiy and Ochamchirskiy rayons. Refugees would return to Galskiy Rayon at the same time. In the next stage, the peacekeeping troops would move to the Gumista River, allowing those who have been forced to evacuate to return to Ochamchirskiy and Gulripshskiy rayons and Sukhumi. That operation should take place by 15 May, when the Russian peacekeepers' period of deployment in the region expires. "In the event that the Russian military contingent continues to stand by and watch this genocide against the Georgian people happen, we have no intention of asking that its mission be extended," reported the chairman of the Supreme Soviet of the Autonomous Republic of Abkhazia.

For its part, Tbilisi promises to resolve all problems without bloodshed. However, if the current Abkhazian leaders do not demonstrate good will, it is also possible that military methods of "preserving Georgia's territorial integrity" could be employed.

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Mr. Nadareyshvili expressed satisfaction with regard to the changes that have occurred in the position of many politicians in Moscow regarding the Georgian-Abkhazian conflict: "Having come up against the Chechen problem, Russia has begun to take a more cautious stance on separatism outside its borders." It is no secret that during the Georgia-Abkhazia war the Ardzinba government received both political and military support. Today, in the opinion of Tamaz Nadareyshvili, Sukhumi probably cannot count on aid, at least not in the previous amount.

On the subject of Russian-Georgian relations, Georgia's vice-premier expressed support for reestablishment of disrupted economic ties.

*Mamaladze Assault, Other Rescue Corps Actions Examined

954F1816A Moscow NEZAVISIMAYA GAZETA in Russian 11 Mar 95 p 2

[Article by Nodar Broladze: "The Rescue Corps Is the Center of Attention Again; 'Mkhedrioni's' Successors Feel Victimized"]

[FBIS Translated Text] The discussion of the draft law on consumer rights protection by the Georgian parliament on Thursday could not begin until 1300 hours. The legislators' work has been interrupted this week by the opposition's attempts to put current events on trial in parliament. The latest was connected with the attempt of members of the Rescue Corps to "influence" Levan Mamaladze, the personal representative of the head of state in the Lower Kartli region. Mamaladze managed to get to the meeting of parliament in spite of a skull fracture and to express his opinion of what had happened at the deputies' request.

The 28-year-old Mamaladze was appointed to this new position primarily, in his words, to work with law enforcement agencies for the restoration of order in a region with a constantly rising crime rate. He began by ordering performance evaluations of police officers in several parts of the region, conducting drug tests, and dismissing the chief of police of Marneulskiy Rayon. In short, he acted "in line with this important assignment, personal convictions, and objective necessity."

The regional procurator informed the parliament that one of the demands of the members of the Rescue Corps who broke into Mamaladze's office (they included Giga Gelashvili, one of the leaders of the corps, and Security Council Deputy Chief Temur Khachishvili, a member of this organization) was the reinstatement of the chief of police of Marneulskiy Rayon.

Another interesting detail also came to light. A search of a building turned up a cache of firearms belonging to the Rescue Corps, which was inexplicably overlooked until recently. An explosion here on 6 March killed two corps members and wounded several others. Members of the corps suspect that this was the result of the careless handling of ammunition, because the premises were under strict 24-hour guard.

The opposition is implying that the Rescue Corps, "which needs nothing more than shovels, picks, and other tools used in emergencies" such as natural disasters, has been overindulged by officials. Vice-Speaker Vakhtang Rcheulishvili retorted that members of "Mkhedrioni" (the paramilitary organization that was the precursor of the Rescue Corps), who had fought in all recent wars, including the civil war, and many of whom had died or become disabled, deserved better treatment and more consideration from the state. Without justifying their actions, he advised the more zealous deputies to "consider their own faults instead of blaming everything on the Rescue Corps and on the president himself." Rcheulishvili was referring to the deputies who have been accused of various crimes.

While the deputies were spending three days vying with each other for the best arguments to bolster their own views, a car ran into an antitank mine on a farm in Marneulskiy Rayon. Two innocent people died—the farm director and one of his colleagues. It would be difficult to guess the purpose of this mine. It probably was not intended to harm accidental victims. Obviously, criminal proceedings were instituted.

The organization known as the "Rescue Corps of Georgia," which was established as a counterpart of the emergency aid committees, is experiencing serious difficulties today and wants the Georgian public to give these difficulties careful consideration. This was announced at a press conference in Tbilisi on 9 March by Rescue Corps First Deputy Chairman Longi Chelidze. The press conference was convened in response to the recent incident. We know that Pradon Kenkebashvili, the newly appointed chief of police in Marneulskiy Rayon—40 kilometers from Tbilisi—chose the weapons cache of the Rescue Corps—a state organization—as the target of the very first "sweep" to rid the territory of criminal elements. Members of the corps felt that this was an illegal operation and took their complaints to the authorized representative of the head of state in the region, Levan Mamaladze, but they did not do this in the appropriate manner. Several dozen armed individuals tried to pressure the representative. One of Mamaladze's guards was injured. Mamaladze's own skull was fractured by the butt of an assault rifle. Criminal charges were filed.

In Chelidze's words, the problem is that members of the Rescue Corps have fought in all recent wars. Many of them have been overlooked by the state. Besides this, 700 families of deceased organization members need social protection. Chelidze said that the leaders of the corps "are trying to purge their ranks of unworthy members who have delusions of absolute immunity and impunity." The main thing, however, is that this conflict must not be politicized. A pledge to this effect was signed the day before yesterday by representative Mamaladze and Rescue Corps leader Gelashvili. This seems to have put an end to the incident.

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***Reporter on Government's Treatment of Media, Other Issues**

954F1944A Moscow LITERATURNAYA GAZETA in Russian No 12, 22 Mar 95 p 15

[Interview with Nikolay Kandiashvili, correspondent for Russian Television in Georgia, conducted by Svetlana Kuznetsova: "How Many Times the News Came That I Had Been Killed..."]

[FBIS Translated Text] **He is quite a young man. That is why he asks everyone to call him simply, Koka. A correspondent of Russian Television in Georgia, Nikolay Kandiashvili at first glance seems like a most successful southerner. But when one gets to know him a little better, one understands how much pain he bears in his heart for his homeland. And how much courage and resolve one must have to retain the outward calm of an unbiased reporter.**

[Correspondent] There are few reports about Georgia in the mass media today. Everyone senses that much is being understated. What do you, as a man who lives there permanently, think about this?

[Kandiashvili] I myself send three or four reports to Moscow every day about the events in Georgia. And, it seems to me, I tell it all. And as for the press, there really is very little information. The newspapers and journals, as a rule, repeat what is said in the news presented by ITAR-TASS, the RIA [Russian Information Agency], and Interfaks. In Tbilisi, there is the RTV [Russian Television] correspondent office, there are some correspondents from "Ostankino," Reuters, and WTN—and that is all, I believe.

[Correspondent] Are there difficulties which arise in your work? Are there obstacles placed in your path?

[Kandiashvili] It all depends on what relations are formed with the people who can hinder us in some way. At the present time, I do not have any problems, for the most part. They do not hinder me, perhaps, because they have already understood—I will still say what I want, no matter how they try to hinder me.

[Correspondent] And are you not afraid of reprisals?

[Kandiashvili] They have made attempts on me many times. They shot up my house and blew up my car. That was still under Gamaskhurdia, and then after his flight. In Sukhumi an operator was wounded, and then my driver... And, obviously, there are people who do not like what we are doing. Here is an example. Frequently we prepare materials on the economic situation. Let us say, for example, that we are telling about how much gasoline costs today in Tbilisi. The next day, the head of the gasoline mafia or his representative comes to me and says: "Why are you talking, little fellow? Let us pay you, and you will not write anything about this." I refuse. Then the shooting starts, or something of that sort. Everything is explained quite simply: These people buy up gasoline somewhere in Russia or Azerbaijan at a significantly cheaper price, and make their business on this. And when I write about this and they find out about it in the neighboring states, they raise the prices accordingly.

However, the political repressions were only under Gamaskhurdia. Now, under Shevardnadze, on the contrary, we have very good relations with the power ministries and politicians.

[Correspondent] We know that Shevardnadze was very unhappy with your documentary film, "Georgia—Land of Millionaires."

[Kandiashvili] In general, I have very close relations with Shevardnadze. We talk on the phone or meet two or three times a week, and try to help each other in some way.

[Correspondent] How can you help him?

[Kandiashvili] I tell him about the people's reaction to one event or another, and express my opinion.

[Correspondent] And does he listen?

[Kandiashvili] I do not know. But in any case, he hears me out and asks questions. Also, I can broadcast over "Vesti" that information which is very important for Georgia.

Shevardnadze was unhappy with several of my films. For example, the first broadcast of "Eduard Shevardnadze. Three Lives of One Georgian," which told about how he was born, became a Komsomol member, minister of internal affairs, and first secretary of the Central Committee of Georgia. We referred to his second life as being his service as Minister of Foreign Affairs of the USSR. And his third life is the current one. He did not like this at all.

[Correspondent] Why? Perhaps you distorted the facts?

[Kandiashvili] No, this was an ordinary human reaction. He asked that we re-do it, but the broadcast still took place on Russian Television in its initial form.

And the broadcast of, "Georgia—Land of Millionares," really caused a big scandal. There were abundant reasons for this: The multitude of facts accusing many departments and specific leaders of the country. I told of the horrible position of the people who live in Georgia. Not even live, but exist. I said: If the people live in such conditions, that means the government is not very good. And the conclusion that it is not very good I substantiated with facts.

Naturally, questions immediately arose in everyone's minds. For example, the leader of Adzhariya, Abashidze, wanted to know when containers filled with water instead of kerosene had been sent from Adzhariya to Tbilisi. This kerosene had been sent to Georgia from Japan in the form of humanitarian aid. Abashidze was indignant, and maintained that such a thing never happened. As it turned out, it had.

Another example. I compared today's women's movement, "White kerchief" with Gamaskhurdia's women's guard, "Mdedrioni." Here the participants in the women's movement became indignant—well-known actresses, wives of famous people, even Shevardnadze's wife. None of those who were overly sensitive to truthful information liked this very much.

[Correspondent] You said that you represent Russia in Georgia. Do you consider yourself to be a Russian journalist?

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[Kandiashvili] I consider myself to be simply a journalist. As long as I work at Russian Television, even if they send me to, say, Azerbaijan, I am a journalist of Russian TV. If I go to work for Georgian TV—I will be called appropriately. But as a journalist, I cannot belong to one television station or another, to some person or ministry. This is all transitory, but the profession stands and will stand.

[Correspondent] Tell us, please, in more detail about your films.

[Kandiashvili] On 8 March the film was aired in honor of the Day of the Woman, which was abolished in Georgia...

[Correspondent] Really?!

[Kandiashvili] Yes, Zviad Gamaskhurdia abolished this holiday as being communistic, since it was introduced by Klara Tsetkin in 1910 in Copenhagen. And now we celebrate Mother's Day. But not all women become mothers, and it seems to me such an innovation is not entirely good... And so, in the broadcast aired on 8 March, famous Georgians—Vakhtang Kikabidze, Kote Makharadze, and Tengiz Sigua—express their attitude toward the abolished holiday, and their love for the fair half of humanity. And, of course, they tell about their own experiences. After all, all Georgians are full of love. In Georgia they love 8 March as before—as, I might add, they do everywhere.

In another broadcast—"Such a Surname,"—people meet people with the same surname as theirs, and namesakes of famous individuals—Bagrationi, Beria, Dzhugashvili. Today the 12-year old Nino Chavchavadze lives in Georgia, the namesake of the wife of Griboyedov, and there is also an 18-year old Lavrentiy Beria.

The broadcasts, "Chronicles of the Abkhaz War," at which I was present from the first days and to the last are about how this all began, developed, and in principle ended. This included a cinematic chronicle of the military events, as well as high-level meetings—with Yeltsin, Shevardnadze, Bhutros Ghali, and Clinton. And in all the actions of the politicians there was—powerlessness. Before what? In Russia today there are 180,000 refugees from Chechnya. In Georgia there are 250,000 from Abkhazia, and approximately another 90,000 from Osetia. Every day, Russia talks about the fact that the refugees on its territory do not have a roof over their heads. Such a huge country cannot help 180,000 people. Yet Georgia is so small, so weak, and it has so much misfortune...

The next broadcast, I can already tell, will evoke great dissatisfaction in certain circles—"When the Tbilisi Bazaar Closes." It is a depiction of one day of this bazaar. The viewers will see people who are going hungry today. Among them is a professor of Tbilisi University, who at one time was one of my lecturers. There are actors, former rich people, secretaries of the Central Committee... They walk around the bazaar, and when it closes around 7:00 o'clock, with the onset of darkness, hundreds of these unfortunates begin fighting each other for the opportunity of digging in the trash and finding a leaf of cabbage or an apple core.

[Correspondent] And these intelligent people also fight?

[Kandiashvili] Yes, because they are hungry. I have never seen anything like it in my life. It is wild, but alas, that is the reality. In Georgia today, 95 percent of the population lives below the poverty level. Tbilisi is feeding itself today only thanks to this bazaar. There is no food in the stores, or if there is, it is affordable for only 2-3 percent of the citizens. The film tries to show why this happened.

The next broadcast will be "How They Wash in Georgia." This is a short tale about the history of the famous Tbilisi bathhouses and about what has happened to them today. In Georgia one can get anything at all, except hot water. According to the ancient legend, there are hot springs in Tbilisi. Quite recently, as if to help the people, one of these hot springs burst through on its own in the center of the city. The people come there, put up four posts, stretch cellophane over them, go inside and wash—right in the middle of the street. This is in the Maydani rayon, in old Tbilisi, across from the Metekhi Church and the monument to Gurgasavi. It is a famous place which they like to show when talking about Georgia... Now they are cooking and washing there. We cite the statistics—Tbilisi, which has a population of 1.5 million, needs approximately 200 bathhouses. Before there were 30 of them. Now 12 are left, and only 3 of them are operating. And that is when there is light or gas. Yet we have neither one nor the other.

[Correspondent] In other words, there is not even anywhere to heat the water, except for over a fire?

[Kandiashvili] That is why the bonfires are burning everywhere in Tbilisi. The entire city is in smoke.

[Correspondent] Where do they get the firewood?

[Kandiashvili] They cut down the trees in the streets.

[Correspondent] And are there many of them left?

[Kandiashvili] There are still a few for the present time. All the above-mentioned broadcasts are 15 minutes in length. But we are planning a longer broadcast, about Dzhaba Ioseliani, a former thief under the law, and currently a deputy of Shevardnadze.

[Correspondent] Do you call him that openly—a former thief under the law?

[Kandiashvili] Yes, in the broadcast, "Three Lives of One Georgian," it was written just like this in the captions: "Former thief under the law Dzhaba Ioseliani." This evoked much noise, and we were asked to change the captions... We want to do a broadcast about him. He is a professor, a member of several parliamentary commissions. At one time, after the flight of Gamaskhurdia, together with Ketovani he even ruled Georgia. Today he is one of the leading men in Georgia. I want to tell a little about who he is and where he comes from. He is a very unique man.

[Correspondent] And has he ceased being a thief under the law, once he became such a leader?

[Kandiashvili] That I do not know, but it seems to me that in his current position there is no longer a need for this.

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After all, the duties of the government also include catching and punishing people. Ioseliani has the armed formation, "Mkhedrioni"...

[Correspondent] His own?

[Kandiashvili] Officially, it is called the "Corps of Saviors," but ask anyone and they will tell you that it is headed by Dzhaba Ioseliani. He created this corps... He is a remarkably strange and interesting man. We must surely do a broadcast on him.

"Russia. View from Georgia." These are the thoughts of Giya Nodiya, a world-renowned Georgian philosopher and political scientist. It is a broadcast about Russia and its mutual relations with all the countries of the former USSR. In his opinion, Russia itself does not know what it wants. This is where its many mistortunes stem from.

The broadcast, "Audience," is a series of broadcasts which I myself authored about meetings with families of world heads of state. The broadcast on President of Turkmenistan Niyazov won first place at the First International Television Festival "Mana-94" as the best publicistic film.

And the film, "Adzhar Peace," I at first wanted to call, "Why Is There No War in Adzhariya?" Then I became frightened—what if one broke out? This is a narrative about Adzhariya, the only region in Georgia where for the present time there is no war. It is about Aslan Abashidze, one of the richest men in the former Soviet Union.

[Correspondent] How long have you been working at RTV?

[Kandiashvili] Since the day of its founding. I was the first correspondent of Russian Television outside the boundaries of Russia. It is only now that there are many workers in the correspondent's network, and 54 correspondence offices... Before that, I worked at Central Television, at Georgian TV, in the newspapers and radio.

In general, there are three sacred things in my life—my family, my work, and my friend, who for me is closer than a brother.

[Correspondent] Tell us, how can your love of family be combined with your constant desire to be in the hot spots, with the fact that attempts are made on your life, etc.?

[Kandiashvili] My wife is also a journalist. She is a correspondent for NTV in Georgia, and she has the same problems. We understand each other. We got married 3 years ago, on 4 July, and on 14 August the war broke out. And in the first months after our wedding, I was away on business twice. In general, my wife is a remarkably tolerant woman. How many times the news came that I had been killed, and they announced it on Georgian television...

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